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Notice

Section 30 *Foreign Currency Translation*

Scope of this section

G30.1 An NPO can conduct foreign activities in two ways. It may have transactions in foreign currencies, or it may have **foreign operations**. In addition, an NPO may present its **financial statements** in a foreign currency. This section prescribes how to include foreign currency transactions and foreign operations in the financial statements of an NPO and how to translate financial statements into a **presentation currency**. Accounting for **financial instruments** that derive their value from the change in a specified foreign exchange rate (for example, foreign currency forward exchange contracts) and hedge accounting of foreign currency items are dealt with in Part II of Section 11 *Other Financial Instrument Issues.*

Functional currency

G30.2 Each NPO shall identify its **functional currency**. An NPO's functional currency is the currency of the primary economic environment in which the NPO operates.

G30.3 The primary economic environment in which an NPO operates is normally the one in which it primarily generates and expends cash. Consequently, the following are the most important factors an NPO considers in determining its functional currency:

(a) the currency:

(i) that mainly influences sales prices for goods, and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods, and services.

(b) the currency that mainly influences labour, material and other costs of providing services, goods, (this will often be the currency in which such costs are denominated and settled).

(c) the currency that mainly influences the value of grants, donations and similar income and the cost of providing grants, donation and similar expenses (this will often be the currency in which such incomes or costs are denominated and settled).

G30.4 The following factors may also provide evidence of an NPO's functional currency:

(a) the currency in which funds from financing activities (issuing debt and **equity** instruments or receiving loans) are generated; and

(b) the currency in which receipts from operating activities are usually retained, including cash balances retained as reserves.

G30.5 The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting NPO (the reporting NPO, in this context, being the NPO that has the foreign operation as its **controlled entity**, branch, **associate** or **joint arrangement**):

(a) whether the activities of the foreign operation are carried out as an extension of the reporting NPO, instead of being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting NPO and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other **monetary items**, incurs **expenses**, generates **income** and arranges borrowings, all substantially in its local currency.

(b) whether transactions with the reporting NPO are a high or a low proportion of the foreign operation's activities, including funding provided by the NPO to the foreign operation in the form of grants, donations and similar income.

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting NPO and are readily available for remittance to it.

(d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations or operating expenses without funds being made available by the reporting NPO, either in the form of loans or grants, donations and similar income.

Reporting foreign currency transactions in the functional currency

Initial recognition

G30.6 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an NPO:

(a) buys or sells goods or services whose price is denominated in a foreign currency,

(b) enters into transactions such as enforceable grant arrangements or funding agreements, which are denominated in foreign currency

(c) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

(d) otherwise acquires or disposes of **assets**, or incurs or settles **liabilities**, denominated in a foreign currency.

G30.7 An NPO shall record a foreign currency transaction, on initial **recognition** in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

G30.8 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this Guidance. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

G30.9 When an NPO pays or receives consideration in advance in a foreign currency, it recognises a non-monetary asset or non-monetary liability. The exchange rate to be used on the initial recognition of the related asset, expense or income (or part of it) is the exchange rate at the date on which the NPO initially recognised the non-monetary asset or the non-monetary liability arising from the payment or receipt of advance consideration.

Reporting at the end of the subsequent reporting periods

G30.10 At the end of each **reporting period**, an NPO shall:

(a) translate foreign currency monetary items using the **closing rate**;

(b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and

(c) translate non-monetary items that are measured at **fair value** in a foreign currency using the exchange rates at the date when the fair value was determined.

G30.11 An NPO shall recognise, in **surplus or deficit** in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods, except as described in paragraph G30.15.

G30.12 Exchange rate exchange gains or losses on monetary items such as grant receivables, cash received and held in foreign currency and grant payables related to enforceable grant arrangements and those funding agreements prescribed by Section 37 Fund Accounting [to be provided in ED3] shall be presented as 'with restrictions' in the Statement of Income and Expenses, except as described in paragraph G30.15, unless the agreement specifies that such gains or losses should not form part of the grant arrangement.

G30.13 When another section of this Guidance requires a gain or loss on a non-monetary item to be recognised in the **Statement of Changes in Net Assets**, an NPO shall recognise any exchange component of that gain or loss in the Statement of Changes in Net Assets. Conversely, when a gain or loss on a non-monetary item is recognised in surplus or deficit, an NPO shall recognise any exchange component of that gain or loss in surplus or deficit.

Net investment in a foreign operation

G30.14 An NPO may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the NPO's net investment in that foreign operation, and is accounted for in accordance with paragraph G30.13. Such monetary items may include long-term receivables or loans. They do not include ~~trade~~ receivables or ~~trade~~ payables.

G30.15 Exchange differences arising on a monetary item that forms part of a reporting NPO's net investment in a foreign operation shall be recognised in surplus or deficit in the **separate financial statements** of the reporting NPO or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting NPO (for example, **consolidated financial statements** when the foreign operation is a controlled entity), such exchange differences shall be recognised in the Statement of Changes in Net Assets and reported as a component of funds without restrictions. They shall not be recognised in surplus or deficit on disposal of the net investment.

Change in functional currency

G30.16 When there is a change in an NPO's functional currency, the NPO shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

G30.17 As noted in paragraphs G30.2–G30.5, the functional currency of an NPO reflects the underlying transactions, events and conditions that are relevant to the NPO. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an NPO's functional currency.

G30.18 The effect of a change in functional currency is accounted for prospectively. In other words, an NPO translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

G30.19 An NPO may present its financial statements in any currency (or currencies). If the presentation currency differs from the NPO's functional currency, the NPO shall translate its items of income and expense and **financial position** into the presentation currency. For example, when a **group** contains individual entities with different functional currencies, the items of income and expense and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

G30.20 An NPO whose functional currency is not the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the following procedures:

(a) assets and liabilities for each **Statement of Financial Position** presented (i.e., including comparatives) shall be translated at the closing rate at the date of that Statement of Financial Position;

(b) income and expenses for each **Statement of Income and Expenses** (i.e., including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognised in the Statement of Changes in Net Assets and reported as 'without restrictions' in the Statement of Income and Expenses unless otherwise specified. They shall not subsequently be reclassified to surplus or deficit.

G30.21 For practical reasons, an NPO may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

G30.22 The exchange differences referred to in paragraph G30.20(c) result from:

(a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate; and

(b) translating the opening net assets at a closing rate that differs from the previous closing rate.

When the exchange differences relate to a foreign operation that is consolidated but not fully controlled, accumulated exchange differences arising from translation and attributable to the **non-controlling interest** are allocated to, and recognised as part of, non-controlling interest in the consolidated statement of financial position.

G30.23 An NPO whose functional currency is the currency of a hyperinflationary economy shall translate its results and financial position into a different presentation currency using the procedures specified in Section 31 *Hyperinflation*.

Translation of a foreign operation into the controlling NPO's presentation currency

G30.24 In incorporating the assets, liabilities, income and expenses of a foreign operation with those of the reporting NPO, the NPO shall follow normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a controlled entity (see Section 9 *Consolidated and Separate Financial Statements*) and the translation procedures set out in paragraphs G30.20–G30.22. However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting NPO to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements, a reporting NPO continues to recognise such an exchange difference in surplus or deficit or, if it arises from the circumstances described in paragraph G30.15, the NPO shall recognise it in the Statement of Changes in Net Assets.

G30.25 Any **goodwill** arising on the acquisition of a foreign operation and any fair value adjustments to the **carrying amounts** of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraph G30.20.

Disclosures

G30.26 In paragraphs G30.28 and G30.29, references to 'functional currency' apply, in the case of a group, to the functional currency of the **controlling NPO**.

G30.27 An NPO shall disclose the following:

(a) the amount of exchange differences recognised in surplus or deficit during the period, except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with Section 11 *Financial Instruments*;

(b) the amount of exchange differences arising during the period and classified in a separate component of net assets at the end of the period.

G30.28 An NPO shall disclose the currency in which the financial statements are presented. When the presentation currency is different from the functional currency, an NPO shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.

G30.29 When there is a change in the functional currency of either the reporting NPO or a significant foreign operation, the NPO shall disclose that fact and the reason for the change in functional currency.

G30.30 Permanent deficits or surpluses on individual enforceable grant arrangements or funding agreements that in accordance with Section 37 are to be presented as ‘with restrictions’ arising as a consequence of the impact of changes in exchange rates shall be disclosed. These deficits or surpluses shall be disclosed separately from deficits or surpluses arising for other reasons.

Application Guidance Section 30 – *Foreign currency translation*

AG30.1 Section 30 - *Foreign Currency Translation* sets out how an NPO accounts for activities carried out in currencies other than its own functional currency and sets out the principles to apply. Further guidance and illustrative examples are provided in the Implementation Guidance.

AG30.2 The functional currency is the main currency of the NPO's activity. There are two ways in which an NPO may have activities in other currencies.

(a) It may enter into transactions, such as selling or buying goods or services, receiving or paying money, receiving or making grants or donations, borrowing or lending, in currencies other than its own functional currency.

(b) It may have foreign operations, such as a foreign branch, controlled entity, associate or joint venture, which mainly carry out their activities in a different principal currency and hence have a different function currency to the NPO itself.

AG30.3 In addition, an NPO may choose to prepare its financial statements in a currency that differs from its own functional currency. In this event, the currency used for preparing and reporting the financial statements is defined as the presentation currency.

Functional Currency

AG30.4 The functional currency of an NPO shall be identified when the NPO is established. In practice this may occur when its general ledger is set up or when the first financial statements are prepared. Functional currency is identified through an assessment. It is not an accounting policy choice. Once the functional currency of an NPO has been identified it shall only be changed if the circumstances considered in the assessment change.

AG30.5 The functional currency of the NPO shall be identified by considering its primary economic environment, as set out in G30.3-G30.4. The primary economic environment is the currency in which the NPO mainly operates. For some NPOs, this may be relatively straightforward and will be the domestic currency of the country of operation of the NPO. For others, who have significant foreign currency transactions or foreign operations, the identification may require further analysis.

AG30.6 The most significant indicators of the economic environment are the currency that impacts grants and donations (both received and paid), the prices of its sales of goods and services, its purchases of goods and services, and its payment of other costs such as employees' costs. Usually this will be the currency in which these transactions are denominated and paid. If these indicators alone do not give a clear identification of the functional currency, other indicators relating to the financing of the NPO shall be considered, such as the currency of funding through equity or borrowings, and the currency in which the NPO chooses to retain any significant cash surpluses.

AG30.7 If an NPO receives the majority of its funding in a currency other than its domestic currency, then it shall perform a detailed assessment to identify its functional currency.

AG30.8 Where the NPO has foreign operations, such as a branch, controlled entity, associate or joint arrangement, the functional currency of the foreign operation shall be identified also. As set out in G30.5, the initial consideration is to decide whether the foreign operation has a separate economic environment to the NPO holding the foreign operation (the controlling NPO*).*

AG30.9 If the foreign operation has a separate economic environment, the functional currency of the foreign operation shall be assessed independently from that of the controlling NPO. This shall be assessed using the same approach as for any stand-alone NPO, as set out in G30.3 – G30.4.

AG30.10 If the foreign operation does not have a separate economic environment, then the functional currency of the controlling NPO and foreign operation will be the same.

AG30.11 The factors to consider when identifying if the economic environment of the foreign operation is different from that of the controlling NPO are set out in G30.5. The four factors listed are means to assess the degree of financial interaction and dependency between the controlling NPO and the foreign operation. If there is very little interaction, so that the foreign operation mostly manages its own finances, it is probable that they have a separate economic environment. If there is a significant transfer of cash or funds between the controlling NPO and the foreign operation, in the form of investment, remittances, payments or receipts for goods and services, or grants or donations, it is probable that they have the same economic environment.

Reporting foreign currency transactions in the functional currency

AG30.12 At each balance sheet date, foreign currency monetary items should be translated using the closing exchange rate, which is the exchange rate at the balance sheet date. Monetary items are items either held in cash or items that will result in a future inflow or outflow of cash, for example, debtors, grant receivables, creditors, grant payables, loans, or borrowings.

AG30.13 Where an enforceable grant arrangement or a funding agreement prescribed by Section 37 *Fund* accounting is presented as 'with restrictions', the exchange rate differences arising from retranslation of monetary items relating to those agreements, such as grant receivables or grant payables, shall be recorded as 'with restrictions' in the Statement of Income and Expenses. Section G30.12 provides an exception where the enforceable grant arrangement or funding agreement specifically excludes such gains and losses from being recorded as part of the grant arrangement or agreement. The underlying principle is that exchange differences should be follow the presentation of the transaction to which it relates.

AG30.14 Non-monetary items, such as property, plant and equipment or intangible assets measured at historical cost, shall continue to be translated at the exchange rate used at the date of the initial transaction. As a result, no further foreign exchange translation arises on these items after their initial recognition.

AG30.15 Non-monetary items that are measured at fair value, (for example, property plant and equipment held at fair value), shall be translated using the exchange rate when the fair value was determined. Hence these items will be re-translated at subsequent balance sheet dates.

AG30.16 Payments made in advance by grant-providers under an enforceable grant arrangement that has unfulfilled enforceable grant obligations (grant arrangement liabilities) are non-monetary items.

AG30.17 If an enforceable grant obligation increases, or a new obligation under an enforceable grant arrangement is recognised due to the effect of changes in exchange rates, the additional obligation is recognised as a provision (onerous contract) in accordance with Section 21 *Provisions and contingencies*. The corresponding expense shall be presented in the Statement of Income and Expenses as with restrictions where Section 37 required the original enforceable grant arrangement to be presented in this way.

AG30.18 If the impact of the change in exchange rates is to require a refund to the grantor or donor, the refund shall be a reduction to revenue. The reduction to revenue shall follow the presentation on the Statement of Income and Expenses as was required for the presentation of the enforceable grant arrangement or funding agreement to which it relates. If insufficient revenue has been recognised, the balance shall;

(i) be deducted from the grant arrangement liability for the unfulfilled enforceable grant obligations relating to enforceable grant arrangement or
(ii) create a liability and a new expense if insufficient revenue has been recognised.

AG30.19 The terms of the enforceable grant arrangement may require the NPO to spend all the money it received under an enforceable grant arrangement, including any exchange gains on specified activities, even if all enforceable grant obligations have been met. This requirement, shall have no impact on the reported results of the NPO as it relates to future spend.

AG30.20 Exchange gains or losses arising from enforceable grant arrangements or funding agreements presented as 'with restrictions', to the extent that they have not been offset by any other impacts unrelated to a change in exchange rates, shall be transferred to/from funds with 'without restrictions'. Transfers should be recognised only when the funds no longer meet the definition of restricted funds under G2.74.

AG30.21 If a grant arrangement does not specify the treatment of exchange rate gains or losses, the NPO shall consider if there are any implied terms, derived from previous agreements or discussions with the donor or grantor. In the absence of any terms, written or implied, surpluses relating to exchange gains shall be presented consistently with the revenue and expenses under an enforceable grant arrangement or funding agreement as required by Section 37.

Use of a presentation currency other than the functional currency

AG30.22 It is permitted to present the financial statements in any currency. This may be desirable where the functional currency is not the domestic currency of the NPO, or if the NPO needs financial statements in a particular currency for a specific purpose, for example where this has been requested by a donor. Hence the presentation currency used for a set of financial statements is a choice. Where a presentation currency other than the functional currency is used to present the financial statements, the approach set out in G30.19 - G30.22 shall be applied to the financial statements in their entirety. Presentation of a part of the financial statements, for example, just the Statement of Income and Expense in the donor's currency, is not permissible within the primary financial statements. Any part presentation shall be presented outside the financial statements. This can be either in supplementary statements [to be considered in ED3] or in special purpose financial information.

AG30.23 A frequent application of the use of a presentation currency is for the translation of the results of a foreign operation with a different functional currency to the controlling NPO, so that the financial statements can be presented in a common currency, which is usually the functional currency of the controlling NPO.

AG30.24 Where monetary assets or liabilities are held between the controlling NPO and an foreign operation, (for example a loan or short-term payable from one party to the other), consolidation in a common currency will not eliminate any foreign exchange gain or loss arising in the financial statements of the party holding the foreign currency item. As a result, any foreign exchange gain or loss arising will be reported in the consolidated financial statements, even though the intergroup assets or liabilities themselves are eliminated on consolidation.

Disclosure

AG30.25 Where grantors or donors do not accept exchange rate risk, exchange rate losses will ultimately be funded by the NPO from its funds without restrictions. Where a transfer is required between funds 'with restrictions' and funds 'without restrictions' as a result of an exchange rate loss on an enforceable grants arrangements or funding agreement, these movements shall be separately presented from all other movements, as required by G30.30.

Comparison of Section 30 with the *IFRS for SMEs* Accounting Standard

Section 30 of INPAG has been drawn from Section 30 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 30 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 30 of INPAG are as follows:

- INPAG Section 30 uses different terminology, referring specifically to NPOs rather than entities more generally. It also uses the names of the primary statements proposed in INPAG and uses surplus or deficit instead of profit or loss.
- The factors for determining the functional currency for the NPO and its foreign operations have been broadened from the draft Third edition of the IFRS for SMEs Accounting Standard to include grants and donations.
- Similarly, the types of foreign currency transactions that might be relevant have been broadened to include enforceable grant arrangements and funding agreements.
- INPAG Section 30 requires exchange rate gains and losses on monetary items related to enforceable grant arrangements and funding agreements to be presented as with or without restrictions in accordance with the arrangement to which it relates.
- INPAG Section 30 has replaced 'component of equity' with 'net assets' in describing where exchange gains and losses should be disclosed.
- INPAG Section 30 includes additional disclosures where there are permanent surpluses or deficits on an enforceable grant arrangement or grant agreement that is required to be presented as restricted arising from exchange rate gains and losses.

Basis for Conclusions - Section 30 Foreign *currency translation*

BC30.1 A number of respondents to the Consultation Paper issued in January 2021 provided feedback that foreign currency translation should be treated as a priority topic for inclusion in INPAG. The PAG strongly supported the inclusion of this topic in INPAG, given the significant practical difficulties experienced by NPOs.

BC30.2 The TAG in its consideration of this feedback sought to understand the nature of the concerns raised. Through these discussions it concluded that the issues being raised were about the application of the accounting principles for foreign currency translation in the NPO context, rather than the principles themselves. This was particularly focused on the presentation and disclosure of foreign currency gains and losses associated with grant funding.

BC30.3 As a consequence it was decided to prioritise this topic for inclusion in INPAG, but to focus on presentation and disclosure. It was agreed not to review the principles for accounting for foreign currency translation in the *IFRS for SMEs* Accounting Standard but instead develop application guidance and implementation guidance.

BC30.4 Reflecting this decision, the draft Third edition of Section 30 of the *IFRS for SMEs* Accounting Standard has been modified to reflect NPO related terminology and the scope of the financial statements proposed for INPAG. It has also been updated to reflect the likely sources of NPO income and expense such as grants and donations. It has not been the subject of a full update.

BC30.5 The main amendments to this Section are to allow for the impact of fund accounting, which is proposed for INPAG. Exchange gains or losses arising on monetary items relating to enforceable grant arrangements and those funding arrangements prescribed by Section 37 *Fund accounting* shall be presented as 'with restrictions' in the Statement of Income and Expenses, will also be presented as 'with restrictions' unless the grant arrangement specifically excludes this presentation.

BC30.6 Consideration was given to showing the exchange gain or loss as 'without restrictions' in the Statement of Income and Expenses to show that an NPO may have to fund a loss on an arrangement that is presented as 'with restrictions' from its unrestricted resources. Whilst this had some benefits, it had the potential to create complexity and ultimately not provide the transparency over such gains and losses that is being sought. As a consequence, it is proposed that the presentation of the exchange gain or loss follows the presentation of the enforceable grant arrangement or funding agreement, when it is required to be presented as 'with restrictions' in the Statement of Income and Expenses.

BC30.7 There is a new requirement to separately disclose the impact of changes in exchange rates where there is a permanent deficit or surplus on an enforceable grant arrangement of funding arrangement that is required to be presented 'with restrictions' in the Statement of Income and Expenses. The requirement to separately disclose these changes in exchange rates is intended to provide transparency of exchange rate exposures relating to grant arrangements. This transparency will improve the understanding of the source and use of an NPO's funds, which reflects the concerns raised by respondents to the Consultation Paper. The Secretariat recognise that the benefit of this requirement needs to be proportionate to the effort required, particularly for smaller NPOs.

BC30.8 Application Guidance has been developed to provide additional guidance on these key changes to the *IFRS for SMEs* Accounting Standard. This guidance explains that grant arrangement liabilities from enforceable grant arrangements are non-monetary items. This is because they reflect the revenue received or receivable or enforceable grant obligations in an enforceable grant arrangement that need to be met by the grant recipient. The Secretariat initially considered whether enforceable grant arrangement liabilities were monetary items, but the INPAG Glossary defines monetary items as units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Since no future cash flow is expected to settle these particular liabilities, they are considered a non-monetary item.

BC30.9 As a consequence, grant arrangement liabilities relating to enforceable grant arrangements measured in a foreign currency are to be recorded at historical cost using the exchange rate at the date of the transaction as set out in G30.10(b). This means that they do not need to be retranslated at each balance sheet date.

BC30.10 The Secretariat examined the treatment of increased expenses required to meet the requirements of an enforceable grant arrangement when exchange rates change. The Secretariat initially considered whether the additional obligation from the increased expenses should be classified as an enforceable grant arrangement liability. However, as the additional liability does not change the initial revenue recognised and related enforceable grant obligations, this was not considered appropriate.

BC30.11 The Secretariat considered instead whether the additional expenses created an onerous requirement under an enforceable grant arrangement. It considered whether the recognition criteria for a provision, as set out in G21.4, would be met. As it is likely that the criteria of obligation existence and probable occurrence would be met and the amount of additional expense can be reliably measured at the balance sheet date, the Secretariat concluded there would most likely be a present obligation under the grant arrangement. As a consequence, a provision for an onerous contract is an appropriate classification. The Secretariat were of the view that the corresponding expense is presented in the Statement of Income and Expenses should follow the presentation of the original grant arrangement.

BC30.12 The Secretariat considered the situation where the amount of expense required to satisfy a grant arrangement is reduced as a result of exchange rate changes impacting the level of expenses in the local currency. Where the grant arrangement requires that the grant recipient must spend all the grant received in the local currency, the NPO will need to incur additional expenses to satisfy the grant arrangement. The additional expenses will follow the presentation of the original grant arrangement in the Statement of Income and Expense.

BC30.13 Where no additional spend is required, if there are no other offsetting transactions, the individual grant arrangement will show a surplus. When the grant arrangement comes to an end, if the grant arrangement has been presented as 'with restrictions' any surplus will be transferred from the specific grant arrangement in funds 'with restrictions' to funds 'without restrictions'. In this way the surplus will become available for any activity undertaken by the NPO.

BC30.14 A scenario of repaying an exchange gain to the grant-provider was considered. The Secretariat is of the view that a refund is a monetary item and should be distinct from other liabilities under a grant arrangement. It concluded that the repayment should first reduce the amount of any revenue recognised under that grant arrangement and presented in the Statement of Income and Expenses consistent with the revenue initially recognised.

BC30.15 As it is possible that an exchange gain is greater than the original revenue or greater than the revenue recognised to date (where there are unfulfilled enforceable grant obligations), the Secretariat proposed that where there are enforceable grant obligations to be satisfied, the excess amount should be recognised as a change to the enforceable grant arrangement liability. The Secretariat were of the view that under a funding agreement, a repayment to a grant-provider because of an exchange gain would be unlikely. If, however, it is required, the shortfall would be treated as a liability and expense. Any impact on revenue or expense is proposed to be presented on the Statement of Income and Expenses in line with the presentation of the original grant arrangement. This presentation will provide transparency about the adequacy of funding.

BC30.15 To illustrate the conclusions reached about the presentation and disclosure of foreign exchange gains and losses, examples have been created. The illustrative examples show how revenue, expenses and gains and losses will be shown on the face of the Income and Expenses Statement.

BC30.16 The examples have been framed to provide guidance; to explain how to account for transactions with a different denomination and settlement currency; provide guidance where changes in exchange rates result in differences between revenue received and the obligation to incur costs; to provide guidance on disclosure of exchange rate gains and losses as they relate to grant arrangements; to provide guidance on re-translation of foreign currency monetary assets and liabilities relating to grant arrangements; for the judgements applied in identifying an NPO's functional currency; and to clarify the scope and limitations of the use of a presentation currency other than the function currency.

Section 30 – *Foreign Exchange Translation*

How should the functional currency of the NPO be identified?

IG30.1 The functional currency of an NPO is identified by assessing which is the currency of its primary economic environment. This is the environment where it mainly generates and expends cash. The most important factors to consider in this assessment are described in G30.3.

IG30.2 Often, this assessment will be straightforward. For example, if an NPO, based in a country with currency CX, receives grants and donations in a number of currencies including CX, pays for goods and services to deliver its public benefit in a range of currencies, with CX being the most significant, and pays its workforce and property rental costs and other overheads in CX, then its functional currency will be CX.

IG30.3 In more complex cases it may be necessary to consider the additional factors described in G30.4. For example, if the NPO in the example above mainly receives its funding from donors in currency CY, pays for its direct costs in a range of currencies with CY being the most significant, but pays its overhead costs in CX, then it is possible that functional currency cannot be identified from the primary characteristics alone.

IG30.4 In this example, the secondary characteristics, relating to funding, should be considered. If the NPO retains significant cash surpluses in CX or has borrowings in CX, then it is likely that its functional currency would still be CX. The management of the NPO, in deciding to manage its funding in CX, may have considered that, although they are exposed to a range of currencies through income and direct costs, access to funding in CX is a priority given the relative significance of the NPO's CX cash flows compared to any other single currency.

IG30.5 Alternatively, if the NPO raised borrowings in CY and retained its donations in CY until they are required, then it is probable that the functional currency of the NPO would be CY. In this instance, the management's decision to denominate funding in CY probably reflects the relative materiality of the direct costs incurred in CY compared to the overheads in CX, indicating that CY is the functional currency.

IG30.6 In the more complex assessments, the materiality of the currency flows and balances should be considered and the management's approach to managing currency exposures and funding may provide an indication of the primary economic environment. In the most extreme case, where no single currency dominates, the functional currency may be the currency of the country in which the NPO is based, given the absence of a clear reason to identify any alternative.

How are transactions which are denominated and settled in different currencies accounted for?

IG30.7 A transaction may be denominated in one currency and settled in another. This may happen where a provider of a good or service prices in a currency that the provider operates in but, for convenience of settlement, both parties agree to settle the transaction in the recipient's currency.

IG30.8 For example, a supplier will record a sale and receivable in its currency and likewise the purchaser will record an expense and payable in its currency when a supply is made. If the transaction is settled in the purchaser's currency, at the settlement date the purchaser will make a payment in its currency to settle the outstanding amount at the spot rate. The supplier will receive an amount that settles its receivable at that date. If the supplier doesn't immediately convert the currency received, they may experience an exchange gain or loss. The purchaser may have an exchange gain or loss depending on how exchange rates have moved from the date that the supply was made.

How are grants recognised where the grant agreement defines the basis of the rate to apply?

IG30.9 Some grants or donations are made to fund a defined amount of expenses by the recipient. Grants or donations can be made under an enforceable grant arrangement that specifies outcomes, activities, or the distinct goods and services to which the arrangement applies. Alternatively a funding agreement may constrain the use of the funding provided without specifying distinct outcomes, activities, goods or services. If the grant recipient is incurring costs in a different currency or currencies to that of the grant being provided, then the grant recipient may be exposed to exchange rate movements. These exposures will vary depending on the requirements of each enforceable grant arrangement or funding agreement.

IG30.9 Enforceable grant arrangements and those funding agreements prescribed by Section 37 *Fund accounting* will be presented as 'with restrictions' in the Statement of Income and Expenses. Any change in exchange rates may impact the obligations that an NPO has under an enforceable grant arrangement or funding agreement. Generally, exchange rate gains and losses will follow the presentation 'with restrictions' or without restrictions' of the funding arrangement to which it relates, unless this is specifically prohibited under the arrangement.

How are financial statements presented in a currency which is different to the functional currency?

IG30.10 Using a presentation currency that is different to the functional currency does not remove any foreign exchange gains or losses that would be recognised in the financial statements if they were presented in the NPO's functional currency. Any existing foreign exchange gains or losses will also be translated into the presentation currency and remain unchanged other than for the effect of translation.

IG30.11 It should also be noted that use of a presentation currency will result in a new exchange difference, arising from the translation of the income and expenses, and opening net assets, as described in G30.20. This is not a realised gain or loss, as it only arises from the translation of the financial statements to the presentation currency. Unlike transaction gains and losses, this translation item is separately presented in the Statement of Changes in Net Assets.

IG30.12 One potential reason for using a different presentation currency to prepare financial statements may be to permit the provider of funding to identify the amount of expense incurred, and the funding provided, in the currency in which the funding was denominated.

How are funding differences arising from exchange rate factors disclosed?

IG30.13 Some agreements for grants, donations or similar income may specify an exchange rate to be applied to calculate the value of expenses against grant revenue received or expenses to be reimbursed. The use of a specific exchange rate may give rise to a shortfall, or surplus, compared to the expenses on an individual enforceable grant arrangement or funding agreement. If there is a funding surplus, the grant arrangement may specify how the surplus should be treated. In the absence of any specific terms relating to the surplus, either written or implied, the surplus may be used for any future purpose and treated as funds 'without restrictions'. Any shortfall on a grant arrangement arising from an exchange loss will need to be met from funds 'without restrictions' if the exchange rate risk has been transferred to the grant recipient, even if the shortfall arises from exchange rate measurement bases defined in the agreement.

IG30.14 As described in G4.14, the nature and purpose of any material restricted funds should be disclosed in the notes to the financial statements. This will include any exchange rate changes that have a material impact on an individual fund that is part of funds 'with restrictions'. Also, as set out in G30.30, movements between funds 'with restrictions' and funds 'without restrictions' arising as a result of changes in exchange rates are to be disclosed separately from other such movements.

Illustrative examples – Foreign currency translation

Example 1 – Funding agreement - Grant received in advance
The functional currency of NPO A is CX. On 1 January 20X3, NPO A receives a grant of CY50 from donor B, when the exchange rate is 2CX = 1CY. NPO A converts the grant into CX100 on the day of receipt.

The grant constrains the use of the grant to a designated project, but as the arrangement is not an enforceable grant arrangement and does not create an enforceable grant obligation for NPO A it is a funding agreement. All of the funds provided under the funding arrangement will be spent on the project. The grant is recorded as revenue on receipt and in accordance with Section 37 *Fund accounting* is presented as 'with restrictions' in the Statement of Income and Expenses. This example sets out the impact on three possible scenarios.

a) The funding arrangement specifies that the grant related expense is measured against the grant at the spot rate when the funds are received

b) The funding arrangement specifies that the grant related expense is measured against the grant at the spot rate when the expense is incurred

c) The funding arrangement specifies that the grant related expense is measured using an exchange rate defined in the funding arrangement of 3CX =1CY

NPO A incurs all of its expenses in currency CX.

a) Grant related expenses are measured at the spot rate when the funds are received.

Recognition of grant receipt as revenue
On 1 January 20X3, NPO A records the grant receipt as revenue, as described in G23.31 – G23.33, as it has no present obligation at the date of receipt.

1 January 20X3	Debit	Credit
Cash	CX100	
Revenue – 'with restrictions'		CX100

Recognition of grant related expenses
NPO A incurs grant related expenses of CX100 on 1 June 20X3, when the spot rate is 2.5CX = 1CY. The expense is shown as 'with restrictions' on the Statement of Income and Expenses, following the treatment of the related grant.

1 June 20X3	Debit	Credit
Expenses – 'with restrictions'	CX100	
Cash		CX100

The change in exchange rate between 1 January 20X3 and I June 20X3 has no impact on the financial statements of NPO A as NPO converted the funds on the date of receipt and so the subsequent change in exchange rate has not impact on NPO A.
Donor B is similarly not impacted by the subsequent change in exchange rates as NPO A has incurred grant related expenses of CY50, measured at the spot rate on the date of grant of 2CX = 1CY.

After recording all the transactions, the impact on NPO A's primary statements is as follows:

1 June 20X3	**With restrictions CX**	**Without restrictions CX**	**Total CX**
Statement of income and expenses			
Revenue	100		100
Expenses	(100)		(100)
Surplus/(deficit)	0		0
Statement of changes in net assets			
Surplus/(deficit)	0		0
Movement between reserves	0		0
Closing balance	0		0
Statement of financial position			
Cash	0		0

b) Grant related expenses are measured at the spot rate when expenses are incurred

Recognition of grant receipt as revenue and grant related expenses
These will both be same as in example 1a)

Recognition of grant obligation
Although NPO A has spent all of the converted funds, because the funding agreement requires that grant related expenses are measured at the spot rate that the expenses are incurred, it has from the donor's perspective only spent CY40 of the CY 50 provided. This is because the spot rate was 2.5CX = 1CY when the expenses were incurred so that the CX100 spent equated to 40CY.

As a consequence, NPO A has an obligation to spend a further CY10 of expenses on the project. NPO A creates a provision for this onerous arrangement to recognise the requirement for these additional expenses. The provision is denominated in CY and initially recognised at the spot rate on 1 June 20X3 (10CY = 25CX at 2.5CX = 1CY). The corresponding charge is presented as 'with restrictions' in the Statement of Income and Expenses, which follows the presentation of the agreement to which it relates.

1 June 20X3	Debit	Credit
Expenses – 'with restrictions' – on creation of provision	CX25	
Provision - creation		CX25

Clearing the additional grant obligation
To meet the funding arrangement requirement, NPO A has to spend a further CX25, which it incurs on 1 July 20X3. The spot rate on 1 July 20X3 is also 2.5CX = 1CY.

1 July 20X3	Debit	Credit
Expenses – 'with restrictions' – on spend	CX25	
Cash		CX25

Provision - utilisation	CX25	
Expenses – 'with restrictions' – on utilisation of provision		CX25

As there is no further change in the exchange rate, NPO A incurs CX25 more expenses than was received as revenue.

From the perspective of donor B, NPO A has incurred grant related expenses of CY50, being CX125 measured at the spot rate of 2.5CX = 1CY on the date the expenses were incurred.

Movement between reserves
The change in exchange rate has resulted in additional expenses that leads to a deficit of CX25 on the funding agreement. This deficit must be funded from the NPO's funds 'without restrictions' as this exchange loss is effectively ineligible. The shortfall is addressed on 1 July 20X3.

1 July 20X3	Debit	Credit
Funds without restrictions	CX25	
Funds with restrictions		CX25

After recording all the transactions, the impact on NPO A's primary statements is as follows:

1 July 20X3	**With restrictions CX**	**Without restrictions CX**	**Total CX**
Statement of income and expenses			
Revenue	100	0	100
Expenses	(125)	0	(125)
Surplus/(deficit)	(25)	0	(25)
Statement of changes in net assets			
Surplus/(deficit)	(25)	0	(25)
Movement between reserves	25	(25)	0
Closing balance	0	(25)	(25)
Statement of financial position			
(Overdraft)/cash	0	(25)	(25)

If the exchange rate on 1 June 20X3 had been 1.5CX = 1CY, then NPO A would only have needed to incur CX75 under the terms of the funding agreement. This would leave NPO A with a cash surplus of CX25, if there is no requirement to refund it. If the surplus could be used for any purpose and NPO A would record a transfer between funds 'with restrictions' and funds 'without restrictions' in the opposite direction to the exchange loss.

From donor B's perspective, NPO A would still have incurred expenses of CY50, even though the amount in the local currency differs.

After recording all transactions, the alternative exchange rate would impact on NPO A's financial statements as follows:

1 June 20X3	**With restrictions CX**	**Without restrictions CX**	**Total CX**
Statement of income and expenses			
Revenue	100	0	100
Expenses	(75)	0	(75)
Surplus/(deficit)	25	0	25
Statement of changes in net assets			
Surplus/(deficit)	25	0	25
Movement between reserves	(25)	25	0
Closing balance	0	25	25
Statement of financial position			
Cash	0	25	0

Typically, there is a requirement that the recipient must spend all the revenue they receive on the purpose specified in the grant. If that is the case, NPO A would need to incur grant related expenses of CX100 and the outcome would be equivalent to scenario a). That is because the impact of the beneficial change in exchange rates would be overridden by the requirement to spend all revenue received on the designated purpose in the funding arrangement.

Donor B would record grant expenses of CY50 even though NPO A would have in effect have spent CY67, being CX100 measured at the spot rate of 1.5CX = 1CY on the date the expenses are incurred.

c) Grant related expenses are measured using a defined rate of 3CX = 1CY

Recognition of grant receipt
Even though NPO A receives CX100 in cash on 1 January 20X3, because the agreement imposes an obligation to incur expenses at the rate of 3CX = 1CY set out in the funding agreement, on day one NPO A will need to incur expenses of CX150 .

As with example 1 a), NPO A records revenue 'with restrictions' of CX100, but at the date the agreement becomes executory (the date it receives the funds), NPO A also an creates an onerous contract provision of CX50. This is to recognise the requirement to spend CX150 in total. The creation of the provision is charged to expenses 'with restrictions', in line with the treatment of the grant revenue.

1 January 20X3	Debit	Credit
Expenses – 'with restrictions' – creation of provision	CX50	
Provision - creation		CX50

Recognition of grant related expenses and related grant revenue
NPO A incurs grant related expenses of CX150 on 1 June 20X3, when the spot rate is 2.5CX = 1CY. This uses the revenue received of CX100 and clears the provision of CX50. NPO X incurs CX50 more expenses than was received as revenue.

1 June 20X3	Debit	Credit
Expenses – 'with restrictions' - spend	CX150	
Cash		CX150
Provision - utilisation	CX50	
Expenses – 'with restrictions' – utilisation of provision		CX50

Movement between reserves
The obligation to spend CX150 as per the funding arrangement has resulted in additional expenses that then creates a deficit of CX50 on that funding arrangement. This deficit must be funded from the NPO's funds that have no restrictions. This shortfall is addressed on 1 June 20X3.

1 June 20X3	Debit	Credit
Funds without restrictions	CX50	
Funds with restrictions		CX50

From the perspective of donor B, NPO A has incurred grant related expenses of CY50, being CX150 measured at the rate of 3.0CX = 1CY as defined in the funding arrangement.

After recording all the transactions, the impact on NPO A's primary statements is as follows:

1 June 20X3	**Restricted CX**	**Unrestricted CX**	**Total CX**
Statement of income and expenses			
Revenue	100	0	100
Expenses	(150)	0	(150)
Surplus/(deficit)	(50)	0	(50)
Statement of changes in net assets			
Surplus/(deficit)	(50)	0	(50)
Movement between reserves	50	(50)	0
Closing balance	0	(50)	(50)
Statement of financial position			
(Overdraft)/cash	0	(50)	(50)

Example 2 – Enforceable grant arrangement - *Expenses reimbursed by grants in arrears*

On 1 September 20X2, NPO C enters into an enforceable grant arrangement with donor D, specifying expenses will be reimbursed up to an amount of CY50. This is presented in funds 'with restrictions'. NPO C incurs grant related expenses of CX100 on 1 January 20X3 when the spot exchange rate is 2CX = 1CY.

The enforceable grant arrangement specifies that the grant related expenses are measured against the grant at the spot rate when the expenses are incurred and settled once the enforceable grant obligation has been met.

Recognition of grant related expenses and related grant revenue
Grant revenue of CX100 is recorded together with a receivable of CX100 for the reimbursement of the grant expenses on 1 January 20X3. The receivable is denominated in CY, since it is measured at the exchange rate when the expenses are incurred. As a result, the receivable is valued at CY50 (as CX100 = CY50 at the spot rate of 2CX = 1CY on 1 January 20X3).

	Debit	Credit
Cash		CX100
Expenses – 'with restrictions'	CX100	
Grant receivable	CX100	
Revenue – 'with restrictions		CX100

Settlement of grant receivable
NPO C remeasures the receivable of CY50 to the latest exchange rate as it is a monetary item. As the exchange rate has moved to 2.5CX = CY1, NPO C recognises an exchange gain of CX25 (with CY50 = CX125). The exchange gain is presented in 'with restrictions' as it relates to the enforceable grant arrangement.

1 June 20X3	Debit	Credit
Grant receivable	CX25	
Foreign exchange gain		CX25

Donor D pays NPO C CY50 on 1 June 20X3, in accordance with the grant fulfilment right in the enforceable grant arrangement. At this date the spot rate is 2.5CX = 1CY. NPO C converts this into CX immediately and obtains CX125 at the spot rate. The receipt of CX125 clears the receivable.

1 June 20X3	Debit	Credit
Cash	CX125	
Grant receivable		CX125

The change in exchange rates results in an exchange gain for NPO C. If NPO C is allowed to retain this surplus for any purpose, then NPO C will be able to transfer the surplus on that specific arrangement to funds 'without restrictions'.

From the perspective of donor D, NPO C has incurred grant related expenses of CY50 as defined in the funding arrangement.

After recording these transactions, the impact on NPO C's primary statements is as follows:

1 June 20X3	**With restrictions CX**	**Without restrictions CX**	**Total CX**
Statement of income and expenses			
Revenue	100	0	100
Expenses	(100)	0	(100)
Operating surplus/(deficit)	0	0	0
Foreign exchange gain/(loss)	25		25
Surplus/(deficit)	25		25

Statement of changes in net assets			
Surplus/(deficit)	25	0	25
Movement between reserves	(25)	25	0
Closing balance	0	25	25
Statement of financial position			
Cash	0	25	25

Example 3 – Enforceable grant arrangement - Grant received in advance

On 1 January 20X3, NPO E receives a grant of CY50 from donor F under an enforceable grant arrangement, which is presented as funds 'with restrictions'. The exchange rate on receipt is 2CX = 1CY. NPO E converts the grant into CX100 (CY50 = CX100 at a rate of 2CX = 1CY) on the day of receipt.

The enforceable grant arrangement requires NPO E to incur expenses on a specific project with measurable performance conditions resulting in an enforceable grant obligation. NPO E expects to incur CX100 of expenses to meet this enforceable grant obligation. The enforceable grant arrangement specifies that grant related expenses are measured at the spot rate on the date when the expense is incurred. Any amounts not spent on the project must be returned to the donor F.

Recognition of grant receipt as binding grant arrangement liability
As per G23.43, an enforceable grant arrangement liability is recognised when the grant is received.

1 January 20X3	Debit	Credit
Cash	CX100	
Grant arrangement liability		CX100

Recognition of grant related expenses and related grant revenue
NPO E incurs grant related expenses of CX100 on 1 June 20X3. In so doing NPO E satisfies the enforceable grant obligation, and therefore, recognises revenue 'with restrictions' of CX100.

1 June 20X3	Debit	Credit
Expenses – 'with restrictions'	CX100	
Cash		CX100
Grant arrangement liability	CX100	
Revenue – 'with restrictions'		CX100

Measurement of the enforceable grant obligation
Under the terms of the enforceable grant arrangement, expenses incurred by NPO E are measured at the spot rate when they are incurred. The spot rate on 1 June 20X3 is 2.5CX = 1CY. Therefore, NPO E has incurred expenses of CY40 in currency CY on the project as the date that the enforceable grant obligation is met (CX100=CY40, at the exchange rate of 2.5CX = 1CY). Therefore, NPO E must return CY10 to donor F.

NPO E recognises a liability of CX25, which is the equivalent of CY10 at the spot rate on 1 June 20X3. This reduces revenue 'with restrictions', as it arises from the obligation to return some of the grant proceeds to donor F.

1 June 20X3	Debit	Credit
Revenue – 'with restrictions'	CX25	
Refund liability to grantor		CX25

Clearing refund liability
NPO E settles the refund liability on 1 August 20X3 by paying CY10 to donor F. As the spot rate on 1 August 20X3 has moved to 3CX = 1CY, the refund liability is increased by CX5 to CX30 (as CY10 is now worth CX30 at a rate of 3CX = 1CY). The additional amount required to settle the refund liability to the grantor creates an exchange loss of CX5. This is treated as an exchange loss since the refund liability to the grantor is a monetary item that will result in a cash outflow from NPO E (G30.11). The exchange loss is recognised in revenue 'with restrictions' (G30.12).

1 August 20X3	Debit	Credit
Exchange loss	CX5	
Refund liability to donor – arising from exchange loss		CX5
Refund liability to donor - settlement	CX30	
Cash		CX30

Movement between reserves
The changes in exchange rates collectively result in a deficit of CX30 on the enforceable grant arrangement (with CX25 being a refund to the donor and CX5 being a loss between the date of refund liability and its settlement). This deficit must be funded from the NPO's funds 'without restrictions'. This shortfall is addressed on 1 August 20X3.

1 August 20X3	Debit	Credit
Funds without restrictions	CX30	
Funds with restrictions		CX30

From the perspective of donor F, NPO E has incurred grant related expenses of CY40, being CX100 measured at the spot rate of 2.5CX = 1CY and is therefore entitled to a refund.

After recording all the transactions, the impact on NPO E's primary statements is as follows:

1 August 20X3	**With restrictions CX**	**Without restrictions CX**	**Total CX**
Statement of income and expenses			
Revenue	75	0	75
Expenses	(100)	0	(100)
Operating surplus/(deficit)	(25)	0	(25)
Foreign exchange loss	(5)	0	(5)
Surplus/(deficit)	(30)	0	(30)
Statement of changes in net assets			
Surplus/(deficit)	(30)		(30)

Movement between reserves	30	(30)	0
Closing balance	0	(30)	(30)
Statement of financial position			
(Overdraft)/cash	0	(30)	(30)

Example 4 – Funding agreement - Grant received in advance and held in foreign currency account

The functional currency of NPO G is CX. On 1 January 20X3, NPO G receives a grant of CY50 from donor H, when the exchange rate is 2CX = 1CY. NPO G retains the grant in CY in a foreign currency account along with a number of other grants.

The funding agreement constrains expenses to a designated project, but it is not an enforceable grant obligation. The grant is recorded as revenue on receipt and presented as 'with restrictions' as required by Section 37 *Fund accounting* in the Statement of Income and Expenses. All of the grant will be spent on the project. The funding agreement specifies that the grant related expenses are measured against the grant at the spot rate when the expense is incurred.

Recognition of grant receipt as revenue
As in example 1b), revenue 'with restrictions' is recognised when the grant is received, using the spot rate on 1 January 20X3 to record the revenue and cash.

Revaluation of foreign currency cash
As the cash is in a foreign currency bank account it is a monetary item and revalued at each reporting date. On 1 June 20X3 the spot rate is 2.5CX = 1CY. This results in an exchange gain of CX25 (as CY50 = CX125 as the spot rate). The foreign exchange gain is recognised as an exchange gain 'with restrictions' in the Statement of Income and Expenses following the presentation of the original agreement.

1 June 20X3	Debit	Credit
Cash	CX25	
Foreign exchange gain		CX25

If the foreign currency bank account included a number of grants it might not be possible to retranslate an individual balance on a grant agreement. Where this is the cash the total exchange gain or loss should be allocated to the grants that make up the balance on the bank account. The allocation method should be a suitable proxy for the cash balance.

Recognition of grant related expenses
NPO G incurs grant related expenses of CX100 on the date the balance is retranslated (1 June 20X3). These expenses are funded by converting the holding of CY to obtain CX100. At the spot rate of 2.5CX to 1CY, CY40 is required to provide CX100. As the cash has been retranslated there is no further accounting adjustment other than to move cash from one bank account to another.

1 June 20X3	Debit	Credit
Expenses – 'with restrictions'	CX100	
Cash		CX100

Recognition of grant obligation

As NPO G had retained the cash in a CY account until it was used, the change in exchange rates between 1 January 20X3 and 1 June 20X3 means that NPO G has also only spent CY40 of the cash received. The remaining CY10 is still held in the foreign currency account.

The expectation in the funding agreement is that all of the grant will be spent on the project. As there in no enforceable grant obligation NPO G does not have a present obligation to incur the expenses, but the funding arrangement constrains the spending of the remaining CY10 to the project. NPO G will not need to recognise a provision for additional expenses and will recognise the expenses as and when they are incurred.

On 1 July 20X3, when the spot rate is 3CX = 1CY NPO G spends the remainder of the grant converting the remaining CY10 into CX30.

	Debit	Credit
Expenses – 'with restrictions' - spend	CX30	
Cash		CX30
Cash	CX5	
Foreign exchange gain		CX5

The change in exchange rate results in NPO G result in NPO G incurring CX30 more expense than was received as revenue, but this shortfall was effectively paid for by the exchange gain. NPO G did not require any additional cash.

From the perspective of donor H, it has incurred grant expenses of CY50.

Movement between reserves
As there is no surplus or deficit on this funding agreement there are no reserve movements.

After recording all the transactions, the impact on NPO G's primary statements is as follows:

1 July 20X3	**With restrictions CX**	**Without restrictions CX**	**Total CX**
Statement of income and expenses			
Revenue	100	0	100
Expenses	(130)	0	(130)
Operating surplus/(deficit)	(30)	0	(30)
Foreign exchange gains/(losses)	30	0	30
Surplus/(deficit)	0	0	0
Statement of changes in net assets			
Surplus/(deficit)	0	0	0
Movement between reserves	0	0	0
Closing balance	0	0	0
Statement of financial position			
Cash	0	0	0