Invitation to INPAG ED2 Consultation Event

WHAT IS GRANT AND DONATIONS (COMMOM MODEL)

Definition of Grants and Donations

Grants are financial awards given by organizations, governments, or institutions to support specific projects, activities, or programs. Donations, on the other hand, are voluntary contributions made by individuals, corporations, or foundations to support a cause or organization without expecting any compensation or return.

Key Differences Between Grants and Donations

While grants and donations are both forms of financial support, they have several key differences:

A. **Purpose**: Grants are typically given for specific projects or initiatives, and recipients must use the funds for their intended purpose. Donations are more flexible and can be used for a variety of purposes, depending on the needs of the organization.
B. **Application Process**: Grants usually require a formal application process, including detailed proposals, budgets, and reports. Donations are often solicited through fundraising campaigns or direct requests.
C. **Obligations**: Grants often come with strings attached, such as reporting requirements, performance milestones, and audits. Donations are generally given without any obligations or expectations.
D. **Tax Implications**: Grants are typically not taxable income for the recipient organization, while donations may be tax-deductible for the donor.

Types of Grants and Donations

There are several types of grants and donations that organizations can pursue:

I. **Government Grants**: Federal, state, and local governments offer grants to support a wide range of programs and initiatives. These grants often have specific eligibility requirements and application processes.

II. **Foundation Grants**: Private foundations offer grants to support causes that align with their mission and values. These grants can range from a few thousand dollars to millions of dollars.

III. **Corporate Grants**: Corporations often provide grants to support initiatives that align with their business objectives or values. These grants can take many forms, including sponsorships, partnerships, and direct contributions.

IV. **Individual Donations**: Individuals can make donations to support causes they care about. These donations can be one-time or recurring and can be made in a variety of ways, including online platforms, direct mail campaigns, and events.

V. **Crowdfunding Campaigns**: Crowdfunding platforms like Kickstarter, GoFundMe, and Indiegogo allow organizations to raise money from a large number of individuals through online campaigns. These campaigns can be used to fund specific projects or initiatives.

VI. **Planned Giving**: Planned giving involves making a long-term commitment to support an organization through a will, trust, or other estate planning tool. These gifts can provide significant support to an organization over time.

VII. **Matching Gifts**: Some corporations offer matching gift programs that match employee donations to eligible nonprofit organizations. These programs can help organizations maximize their fundraising efforts by encouraging employees to give more generously.

VIII. **In-Kind Donations**: In-kind donations are non-cash contributions of goods or services that an organization needs to operate or carry out its mission. These donations can include things like office supplies, equipment, professional services, or volunteer time.

IX. **Sponsorships**: Sponsorships involve a financial contribution from a corporation or business in exchange for recognition or promotion at an event or program. These arrangements can help organizations offset the costs of hosting events or launching new initiatives while also providing valuable exposure for the sponsor.

X. **Cause Marketing**: Cause marketing involves partnerships between businesses and nonprofit organizations where a portion of sales from a product or service is donated to support a specific cause or initiative. These partnerships can help organizations raise awareness and funds for their mission while also providing value to the business partner through increased sales and brand recognition.

Finding Grants and Donors

Finding potential grantors and donors requires research and outreach efforts:

1. **Research Potential Funders**: Organizations should research potential grantors and donors to ensure they align with their mission and values and have funding available for their type of project or initiative. This research can be done through online databases like Grant Station, Foundation Directory Online, or GuideStar, which provide information about grantors' funding priorities, application deadlines, and past recipients.

2. **Build Relationships**: Building relationships with potential grantors and donors is essential to securing funding successfully. This involves networking at conferences and events, reaching out directly via email or phone calls, and following up regularly to keep them informed about the organization's progress and impact.

3. **Create a Strong Proposal**: A well-crafted proposal is critical to securing funding from grantors or donors. This should include a clear description of the project or initiative being funded, a detailed budget outlining how the funds will be used, a timeline for completion, and metrics for measuring success. It's also important to tailor each proposal to the specific funder's priorities and requirements (e.g., length limit, formatting guidelines).

4. **Follow Up**: After submitting a proposal, it's essential to follow up with the grantor or donor to confirm receipt and answer any questions they may have about the proposal (either before or after decision). This helps maintain a positive relationship with the funder even if they decline the request initially; they may consider future funding opportunities if impressed by the organization's responsiveness/professionalism during this process).

In recapitulation, grants and donations are essential sources of financial support for organizations seeking to carry out their missions effectively while maintaining sustainability over time (especially true amidst uncertain economic conditions). By understanding the different types of grants/donations available (and related requirements), conducting thorough research on potential funders/donors aligned with their mission/values/funding priorities/etc., building solid relationships through networking efforts & consistent communication touchpoints throughout the process - organizations can maximize their chances of securing funding successfully while fostering long-term partnerships with those who share similar goals/values along the way!

WHAT ARE GRANT EXPENSES.

Grant Expenses

Grant expenses refer to the costs associated with utilizing funds received through a grant. These expenses are typically outlined in the grant agreement and must be directly related to the purpose for which the grant was awarded. Grant expenses can vary widely depending on the nature of the grant and the specific requirements set forth by the funding organization.

Some common types of grant expenses include:

1) **Personnel Costs**: This includes salaries, wages, and benefits for staff members working on the grant-funded project.

2) **Supplies and Materials**: Costs for necessary supplies, materials, and equipment needed to carry out the project.

3) **Travel Expenses**: If travel is required for the project, expenses such as transportation, lodging, and meals may be covered by the grant.

4) **Consultant Fees**: Payments to external consultants or experts who provide specialized services or advice for the project.

5) **Overhead Costs**: Indirect costs associated with running the organization that are allocated to the grant-funded project.

6) **Subcontractor Costs**: Payments to third-party vendors or organizations that are subcontracted to perform specific tasks within the project.

7) **Administrative Costs**: Costs related to managing and administering the grant, such as accounting, reporting, and compliance activities.

It is essential for organizations receiving grants to carefully track and document all expenses to ensure compliance with the terms of the grant agreement and to provide accurate financial reporting to the funding organization.

Top 3 Authoritative Sources Used:

I. **National Council of Nonprofits**: The National Council of Nonprofits provides valuable resources and guidance on nonprofit management, including information on grant funding and expenses.

II. **Grant Space by Candid**: Grant Space by Candid offers a wealth of information on grants and fundraising, including best practices for managing grant expenses.

III. **U.S. Department of Health & Human Services (HHS)**: The HHS website provides detailed information on federal grants and regulations governing grant expenditures, offering insights into managing grant expenses effectively within government-funded projects.

WHAT IS REVENUE?

Definition of Revenue:

Revenue is the total income generated by a business through its normal business operations, usually from sales of goods and services. It is the amount of money that a company receives from its customers in exchange for the products or services it provides.

Revenue is the money generated from normal business operations, calculated as the average sales price times the number of units sold. It is the top line (or gross income) figure because it appears first on a company's income statement and from which costs are subtracted to determine net income. Revenue is also known as sales on the income statement.

Types of Revenue:

A. **Operating Revenue:** This type of revenue comes from the primary activities of the business, such as sales of goods or services.

B. **Non-Operating Revenue:** This includes income from secondary activities, like investments or selling assets not directly related to the core business.

C. **Gross Revenue:** This is the total revenue generated by a company before any deductions.

D. **Net Revenue:** Also known as net sales, this is the revenue left after deducting returns, discounts, and allowances from gross revenue.

KEY TAKEAWAYS

- Revenue, often referred to as sales or the top line, is the money received from normal business operations.
- Operating income is revenue (from the sale of goods or services) less operating expenses.
- Non-operating income is infrequent or nonrecurring income derived from secondary sources (e.g., lawsuit proceeds).
- Non-business entities such as governments, nonprofits, or individuals also report revenue, though calculations and sources for each differ.
- Revenue is only sale proceeds, while income or profit incorporate the expenses to generate revenue and report the net (not gross) earnings.

Understanding Revenue

- Revenue is money brought into a company by its business activities. There are different ways to calculate revenue, depending on the accounting method employed. Accrual accounting will include sales made on credit as revenue for goods or services delivered to the customer. Under certain rules, revenue is recognized even if payment has not yet been received.
- It is necessary to check the cash flow statement to assess how efficiently a company collects money owed. Cash accounting, on the other hand, will only count sales as revenue when payment is received. Cash paid to a company is known as a "receipt." It is possible to have receipts without revenue. For example, if the customer paid in advance for a service not yet rendered or undelivered goods, this activity leads to a receipt but not revenue.
- Revenue is known as the top line because it appears first on a company's income statement. Net income, also known as the bottom line, is revenues minus expenses. There is a profit when revenues exceed expenses.
- To increase profit, and hence earnings per share (EPS) for its shareholders, a company increases revenues and/or reduces expenses. Investors often consider a company's revenue and net income separately to determine the health of a business. Net income can grow while revenues remain stagnant because of cost-cutting.
- Such a situation does not bode well for a company's long-term growth. When public companies report their quarterly earnings, two figures that receive a lot of attention are revenues and EPS. A company beating or missing analysts' revenue and earnings per share expectations can often move a stock's price.

- Revenue may also be referred to as sales and is used in the price-to-sales (P/S) ratio—an alternative to the price-to-earnings (P/E) ratio that uses revenue in the denominator.

Importance of Revenue:

Revenue is a crucial metric for businesses as it indicates their ability to generate income and sustain operations. It is essential for covering expenses, reinvesting in the business, paying off debts, and ultimately achieving profitability. Investors and analysts closely monitor a company's revenue growth as it reflects the demand for its products or services and overall financial health.

Formula and Calculation of Revenue

The formula and calculation of revenue will vary across companies, industries, and sectors. A service company will have a different formula than a retailer, while a company that does not accept returns may have different calculations than companies with return periods. Broadly speaking, the formula to calculate net revenue is:

Net Revenue = (Quantity Sold * Unit Price) - Discounts - Allowances - Returns

The main component of revenue is the quantity sold multiplied by the price. For a service company, this is the number of service hours multiplied by the billable service rate. For a retailer, this is the number of goods sold multiplied by the sales price.

There are several components that reduce revenue reported on a company's financial statements in accordance to accounting guidelines. Discounts on the price offered, allowances awarded to customers, or product returns are subtracted from the total amount collected. Note that some components (i.e. discounts) should only be subtracted if the unit price used in the earlier part of the formula is at market (not discount) price.

Revenue vs. Income/Profit

Many entities may report both revenue and income/profit. These two terms are used to report different accumulations of numbers.

Revenue is often the gross proceeds collected by an entity. It is the measurement of only income component of an entity's operations. For a business, revenue is all of the money it has earned.

Income/profit usually incorporates other facets of a business. For example, net income or incorporate expenses such as cost of goods sold, operating expenses, taxes, and interest expenses. While revenue is a gross amount focused just on the collection of proceeds, income or profit incorporate other aspects of a business that reports the net proceeds.

Government Revenue

In the case of government, revenue is the money received from taxation, fees, fines, inter-governmental grants or transfers, securities sales, mineral or resource rights, as well as any sales made. Governments collect revenue from citizens within its district and collections from other government entities.

Nonprofit Revenue

For nonprofits, revenues are its gross receipts. Its components include donations from individuals, foundations, and companies, grants from government entities, investments, and/or membership fees. Nonprofit revenue may be earned via fundraising events or unsolicited donations.

Real Estate Revenue

In terms of real estate investments, revenue refers to the income generated by a property, such as rent or parking fees. When the operating expenses incurred in running the property are subtracted from property income, the resulting value is net operating income (NOI). Vacant real estate technically does not earn any operating revenue, though the owner of the property may be required to report fair market value adjustments that result in gains when externally reporting their finances.

What Does Revenue in Business Mean?

Revenue is the money earned by a company obtained primarily from the sale of its products or services to customers. There are specific accounting rules that dictate when, how, and why a company recognizes revenue. For instance, a company may receive cash from a client. However, a company may not be able to recognize revenue until they've performed their part of the contractual obligation.

Are Revenue and Cash Flow the Same Thing?

No. Revenue is the money a company earns from the sale of its products and services. Cash flow is the net amount of cash being transferred into and out of a company. Revenue provides a measure of the effectiveness of a company's sales and marketing, whereas cash flow is more of a liquidity indicator. Both revenue and cash flow should be analyzed together for a comprehensive review of a company's financial health.

What Is the Difference Between Revenue and Income?

Revenue and income are sometimes used interchangeably. However, these two terms do usually mean different things. Revenue is often used to measure the total amount of sales a company from its goods and services. Income is often used to incorporate expenses and report the net proceeds a company has earned.

How Does One Generate and Calculate Revenue?

For many companies, revenues are generated from the sales of products or services. For this reason, revenue is sometimes known as gross sales. Revenue can also be earned via other sources. Inventors or entertainers may receive revenue from licensing, patents, or royalties. Real estate investors might earn revenue from rental income.

Revenue for federal and local governments would likely be in the form of tax receipts from property or income taxes. Governments might also earn revenue from the sale of an asset or interest income from a bond. Charities and non-profit organizations usually receive income from donations and grants. Universities could earn revenue from charging tuition but also from investment gains on their endowment fund.

What Is Accrued and Deferred Revenue?

Accrued revenue is the revenue earned by a company for the delivery of goods or services that have yet to be paid by the customer. In accrual accounting, revenue is reported at the time a sales transaction takes place and may not necessarily represent cash in hand.

Deferred, or **unearned revenue** can be thought of as the opposite of accrued revenue, in that unearned revenue accounts for money prepaid by a customer for goods or services that have yet to be delivered. If a company has received prepayment for its goods, it would recognize the revenue as unearned, but would not recognize the revenue on its income statement until the period for which the goods or services were delivered.

In summary, **revenue** represents the inflow of cash resulting from a company's core business activities and plays a fundamental role in determining its success and viability in the market.

WHAT IS INVENTORY?

Inventory refers to the goods and materials a business holds for the ultimate purpose of resale. It includes raw materials, work-in-progress goods, and finished products that are available for sale or in the process of being manufactured. Inventory management is a crucial aspect of supply chain management as it directly impacts a company's operations, finances, and customer satisfaction.

Inventory is a very important business asset. Business assets are broken down into current assets and non-current assets. A current asset is an asset that can be converted into cash or a cash equivalent quickly, it should not take longer than a year to convert. Non-current assets are assets that take more than a year to convert into cash. Characteristics of Inventory

Taking the business opportunities and market conditions into account, inventory will be sold in less than one year. Inventory then qualifies as a current asset and will be presented as such in the balance sheet.

KEY TAKEAWAYS

- Inventory is the raw materials used to produce goods as well as the goods that are available for sale.
- It is classified as a current asset on a company's balance sheet.
- The three types of inventory include raw materials, work-in-progress, and finished goods.
- Inventory is valued in one of three ways, including the first-in, first-out method; the last-in, first-out method; and the weighted average method.
- Inventory management allows businesses to minimize inventory costs as they create or receive goods on an as-needed basis.

Types of Inventory:

✓ **Raw Materials:** These are the basic materials used in production but have not yet been processed.

✓ **Work-in-Progress (WIP):** Inventory that is partially completed but still in the production process.

- ✓ **Finished Goods:** Products that are ready for sale to customers.
- ✓ **Maintenance, Repair, and Operating (MRO) Inventory:** Items used in supporting production and operations but do not directly become part of the final product.

Inventory Management:

Efficient inventory management involves balancing the costs associated with holding inventory against the benefits of having sufficient stock to meet customer demand. Key aspects of inventory management include:

- ❖ **Demand Forecasting:** Predicting future demand to ensure adequate stock levels without excess inventory.
- ❖ **Reorder Point:** Determining when to reorder items to avoid stockouts.
- ❖ **Safety Stock:** Extra inventory held tqo mitigate the risk of running out of stock due to unexpected demand fluctuations or supply chain disruptions.
- ❖ **Just-in-Time (JIT) Inventory:** A strategy where inventory is received only when needed, reducing holding costs.

Inventory Valuation Methods:

- **FIFO (First-In-First-Out):** Assumes that the oldest inventory items are sold first.
- **LIFO (Last-In-First-Out):** Assumes that the newest inventory items are sold first.
- **Weighted Average Cost:** Calculates the average cost of all units available for sale during a specific period.

Effective inventory management is essential for businesses to optimize cash flow, reduce carrying costs, prevent stockouts, and enhance overall operational efficiency.

Understanding Inventory

Inventory is a very important asset for any company. It is defined as the array of goods used in production or finished goods held by a company during its normal course of business. There are three general categories of inventory, including raw materials (any supplies that are used to produce finished goods), work-in-progress (WIP), and finished goods or those that are ready for sale.

As noted above, inventory is classified as a current asset on a company's balance sheet, and it serves as a buffer between manufacturing and order fulfillment. When an inventory item is sold, its carrying cost transfers to the cost of goods sold (COGS) category on the income statement.

Inventory can be valued in three ways. These methods are the:

- **First-in, first-out (FIFO) method,** which says that the COGS is based on the cost of the earliest purchased materials. The carrying cost of the remaining inventory, on the other hand, is based on the cost of the latest purchased materials
- **Last-in, first-out (LIFO) method.** This method states that the COGS is valued using the cost of the latest purchased materials, while the value of the remaining inventory is based on the earliest purchased materials.
- **Weighted average method,** which requires valuing both inventory and the COGS based on the average cost of all materials bought during the period.

Company management, analysts, and investors can use a company's inventory turnover to determine how many times it sells its products over a certain period of time. Inventory turnover can indicate whether a company has too much or too little inventory on hand.

Special Considerations

Many producers partner with retailers to consign their inventory. Consignment inventory is the inventory owned by the supplier/producer (generally a wholesaler) but held by a customer (generally a retailer). The customer then purchases the inventory once it has been sold to the end customer or once they consume it (e.g., to produce their own products).

The benefit to the supplier is that their product is promoted by the customer and readily accessible to end users. The benefit to the customer is that they do not expend capital until it becomes profitable to them. This means they only purchase it when the end user purchases it from them or until they consume the inventory for their operations.

Types of Inventory

Remember that inventory is generally categorized as raw materials, work-in-progress, and finished goods. The IRS also classifies merchandise and supplies as additional categories of inventory.[1]

Raw materials are unprocessed materials used to produce a good. Examples of raw materials include:

- Aluminum and steel for the manufacture of cars
- Flour for bakeries that produce bread
- Crude oil held by refineries

Work-in-progress inventory is the partially finished goods waiting for completion and resale. WIP inventory is also known as inventory on the production floor. A half-assembled airliner or a partially completed yacht is often considered to be a work-in-process inventory.

Finished goods are products that go through the production process, and are completed and ready for sale. Retailers typically refer to this inventory as merchandise. Common examples of merchandise include electronics, clothes, and cars held by retailers.

Inventory Management

Possessing a high amount of inventory for a long time is usually not a good idea for a business. That's because of the challenges it presents, including storage costs, spoilage costs, and the threat of obsolescence.

Possessing too little inventory also has its disadvantages. For instance, a company runs the risk of market share erosion and losing profit from potential sales.

Inventory management forecasts and strategies, such as a just-in-time (JIT) inventory system (with backflush costing), can help companies minimize inventory costs because goods are created or received only when needed.

It's always a good idea for companies to invest in a good inventory management system. This is especially true for larger businesses with multiple sales channels and storage facilities. These systems are able to identify waste, low turnover, and fraud/robbery.

Inventory Turnover

Inventory turnover is a key part of inventory management. Also called stock turnover, this is a metric that measures how much of a company's inventory is sold, replaced, or used and how often. This figure provides insight into how profitable a company is and whether there are inefficiencies that need to be addressed.

Consumer demand is a key indicator that can determine whether inventory levels will turn over at a quick pace or if they won't move at all. Higher demand typically means that a company's products and services will move from the shelves into consumers' hands quickly while weak demand often leads to a slow turnover rate.

A company's inventory turnover is often expressed as a ratio. The inventory turnover ratio is calculated using the following formula:

Inventory Ratio = COGS ÷ Average Value of Inventory

Company leaders can use this figure to make important decisions about whether they should continue to manufacture certain products and services or determine whether there are issues that need to be addressed.

How Do You Define Inventory?

Inventory refers to a company’s goods and products that are ready to sell, along with the raw materials that are used to produce them. Inventory can be categorized in three different ways, including raw materials, work-in-progress, and finished goods.

In accounting, inventory is considered a current asset because a company typically plans to sell the finished products within a year.

Methods to value the inventory include last-in, first-out, first-in, first-out, and the weighted average method.

What Is an Example of Inventory?

Consider a fashion retailer such as Zara, which operates on a seasonal schedule.2 Because of the fast fashion nature of turnover, Zara, like other fashion retailers is under pressure to sell inventory rapidly. Zara's merchandise is an example of inventory in the finished product stage. On the other hand, the fabric and other production materials are considered a raw material form of inventory.

What Can Inventory Tell You About a Business?

One way to track the performance of a business is the speed of its inventory turnover. When a business sells inventory at a faster rate than its competitors, it incurs lower holding costs and decreased opportunity costs. As a result, they often outperform, since this helps with the efficiency of its sale of goods.

The Bottom Line

Inventory provides businesses with materials to keep their operations going. This includes any raw materials needed in the production of goods and services, as well as any finished goods that companies sell to consumers on the market. Managing inventory and determining the turnover rate can help companies determine just how successful they are and where they can pick up the slack when the profits begin to dry up.

Conclusion

1) Inventory is made up of the raw materials, work-in-process and the final products that will be traded to the clients

2) Inventory is classified as a current asset

3) Retailers account for one product named merchandise where manufacturing companies will account for the multiple inventory categories

4) The different types of inventory are:

    1. Raw materials

2. Work-in-progress

3. Final product

5) Business record inventory differently:

1. Retailers will record it at the cost of purchase.

2. Manufacturers will record all the costs involved in getting the product finalized.

6) Companies can assign the cost of inventory using:

1. FIFO

2. LIFO or

3. Weighted Average method

7) Inventory management is crucial and can cause the success or failure of a company.

WHAT IS FOREIGN CUURENCY TRANSLATION?

Foreign Currency Translation:

Foreign currency translation is the process of converting financial statements from one currency to another, allowing for comparison and consolidation of financial statements from different countries. This is crucial for multinational corporations that have subsidiaries in various parts of the world, as it helps them to understand the financial performance of their entire organization on a single financial reporting currency.

The foreign currency translation process is necessary if a company operates in multiple countries, transacts in different currencies, or a parent company has foreign subsidiaries across different countries. This is because exchange rates can create unrealized gains and losses that can lead to inaccurate financial statements.

Foreign currency translation converts foreign currencies into the parent company's functional currency and then balances exchange rate differences

The Need for Foreign Currency Translation

Companies operating in multiple countries need to maintain separate financial statements for each subsidiary, as transactions occur in the local currency. However, when consolidating these financial statements into the parent company's financial reports, it is essential to convert all the subsidiaries' financial statements into a single currency. This process is known as foreign currency translation.

The Translation Process

There are several methods to translate foreign currency financial statements. These methods include:

1) **Current Rate Method**: This method translates all assets and liabilities at the current exchange rate at the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period. This method is

generally used when there is no expectation of future transactions with the foreign entity.

2) **Temporal Rate Method**: This method translates assets and liabilities based on the exchange rate at the time they were initially recognized or acquired. Revenues and expenses are translated at the average exchange rate for the period. This method assumes that monetary assets and liabilities will be settled at their historical exchange rates.
3) **Monetary/Non-Monetary Method**: This method only translates monetary items (cash, accounts receivable, accounts payable) using the current exchange rate at the balance sheet date. Non-monetary items (property, plant, equipment) are translated at historical rates. This method is suitable for companies that have no expectation of future transactions with the foreign entity.

The Impact of Exchange Rates on Translation

Exchange rates can significantly impact the translated financial statements. When a company's home currency weakens against a foreign currency, it results in higher reported assets and income in the home currency due to favorable exchange rates. Conversely, when a company's home currency strengthens against a foreign currency, it results in lower reported assets and income in the home currency due to unfavorable exchange rates. Therefore, understanding and managing exchange rate risk is crucial for multinational corporations engaging in foreign currency translation.

The Limitations of Foreign Currency Translation

Foreign currency translation can provide valuable insights into a multinational corporation's overall financial performance; however, it does not account for potential economic risks associated with foreign operations. For example, fluctuations in exchange rates can have significant impacts on a company's cash flows, profitability, and competitive position in a foreign market. Additionally, foreign currency translation does not consider other factors such as political risks, cultural differences, and legal issues that can impact a company's success in foreign markets. Therefore, while foreign currency translation is an essential tool for multinational corporations, it should be used in conjunction with other analyses to fully understand a company's global operations.

The steps in the foreign currency translation process are as follows:

Step 1: Choose a Functional Currency

Companies must choose a functional currency for reporting.

The functional currency is the primary currency the company uses for most of its business transactions. For example, this could be the currency of the country where the company's main headquarters are located or where their primary operations are.

This choice can be difficult when a company conducts an equal amount of business in multiple countries. However, once the functional currency has been selected, changes should be made only when there's a significant change in circumstances.

Step 2: Translate the Financial Statements Into the Functional Currency

All financial statements must be presented using the reporting currency. This is the currency a company uses to report its financial statements in.

The financial statements are translated into domestic currency by translating the income statement. According to the FASB ASC Topic 830, income transactions must be translated at the exchange rate when the transaction occurred.

GAAP regulations require items in the balance sheet to be converted per the rate of exchange as of the balance sheet date. In contrast, income statement items are translated according to the weighted average exchange rate.

This can get quite complicated, so always be sure to consult your applicable accounting standards.

Companies must keep a close eye on the dates the transactions occurred. Although most currency translations occur at the year-end, the exchange rates are sometimes determined by the transaction date. Again, bank statements and income records should always be kept up to date to help companies to determine the correct exchange rates.

Step 3: Record Translation Gains and Losses

The gains and losses arising from foreign currency transactions that are recorded and translated at one rate and then result in transactions at a later date and different rates are recorded in the equity section of the balance sheet.