



## THE POWER OF BEING UNDERSTOOD

# U.S. GAAP VS. IFRS: FOREIGN CURRENCY TRANSLATION ISSUES AT-A-GLANCE

*Increasing globalization coupled with related regulations continues to put pressure on moving towards a common global accounting framework – International Financial Reporting Standards (IFRS). Currently, more than 100 countries use IFRS, so if your business goals include global expansion, it is critical to educate yourself about the impact of IFRS on your financial reporting processes and business now. To gain a better understanding of what IFRS means for your organization, we have prepared a series of comparisons dedicated to highlighting significant differences between IFRS and U.S. generally accepted accounting principles (GAAP). This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for foreign currency translation issues. For other comparisons available in this series, refer to our [U.S. GAAP vs. IFRS comparisons at-a-glance series](#).*

*A discussion about U.S. GAAP and IFRS would not be complete without mentioning the status of the Securities and Exchange Commission's (SEC) activities focused on determining whether the application of IFRS by U.S. registrants should be required or allowed. While the SEC has not made any final decisions with respect to use of IFRS by U.S. registrants, its activities are ongoing. For more information, refer to our [IFRS Resource Center](#).*

The guidance related to accounting for foreign currency

translation issues in U.S. GAAP is included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 830, *Foreign Currency Matters*. In IFRS, the guidance related to accounting for foreign currency translation issues is contained in International Accounting Standard (IAS) 21, *The Effects of Changes in Foreign Exchange Rates*. Additional IFRS guidance is contained in IAS 29, *Financial Reporting in Hyperinflationary Economies*.

A number of similarities exist between U.S. GAAP and IFRS with respect to accounting for foreign currency translation issues. For example, both U.S. GAAP and IFRS require entities to remeasure assets, liabilities, income and expenses into the entity's functional currency, which is the currency of the primary economic environment in which the entity operates. Both U.S. GAAP and IFRS also require remeasurement into the functional currency before translation into the reporting currency.

While there are some similarities between U.S. GAAP and IFRS with respect to accounting for foreign currency translation issues, there are also differences. The significant differences between U.S. GAAP and IFRS are summarized in the following table.

These are the significant differences between U.S. GAAP

	U.S. GAAP	IFRS
Relevant guidance	ASC 830	IAS 21 and 29
Determination of functional currency	A number of indicators must be considered to determine the entity's functional currency. Those indicators are not set up in a hierarchical structure.	A hierarchy of indicators exists, which lists primary and secondary indicators to consider when determining an entity's functional currency.
Hyperinflationary economies	If the economy qualifies as hyperinflationary, the financial statements are remeasured as if the reporting parent company's reporting currency were the functional currency. Any exchange differences are reported in income.	Even when the economy qualifies as hyperinflationary, the functional currency is retained. However, if there are any amounts in the financial statements that are not already measured at the current rate at the end of the reporting period, those amounts should be indexed using a general price index, and then translated into the reporting currency at the current rate.

and IFRS when accounting for foreign currency translation issues. Refer to ASC 830 and IAS 21 and 29 for all of the specific requirements applicable to accounting for foreign currency translation issues. Refer to our [U.S. GAAP vs. IFRS comparisons at-a-glance series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

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