U.S. GAAP vs. IFRS: Foreign currency matters

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Introduction
Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company’s business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company’s financial statements. To start this process, we have prepared a series of comparisons dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for foreign currency matters.


Comparison
The significant differences between U.S. GAAP and IFRS related to accounting for foreign currency matters are summarized in the following table.
<table>
<thead>
<tr>
<th>Relevant guidance</th>
<th>U.S. GAAP</th>
<th>IFRS</th>
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<tbody>
<tr>
<td>Determination of functional currency</td>
<td>ASC 830</td>
<td>IAS 21 and 29</td>
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<td>A number of indicators must be considered to determine the entity's functional currency. Those indicators are not set up in a hierarchical structure. The same indicators are also used in assessing whether the functional currency of a foreign operation is the same as that of its parent; there are no additional indicators.</td>
<td>A hierarchy of indicators exists, which lists primary and secondary indicators to consider when determining an entity’s functional currency. There are additional indicators that should be considered in determining whether the functional currency of a foreign operation is the same as that of its parent.</td>
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<td>Hyperinflationary economies</td>
<td>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.</td>
<td>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 restated using a general price index, and then translated into the reporting currency at the current rate.</td>
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</table>

These are the significant differences between U.S. GAAP and IFRS when accounting for foreign currency matters. Refer to ASC 830 and IAS 21 and 29 for all of the specific requirements applicable to accounting for foreign currency matters. In addition, refer to our [U.S. GAAP vs. IFRS comparisons series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Consult your RSM US LLP service provider concerning your situation and any specific questions you may have. You may also contact us toll-free at 800.274.3978 for a contact person in your area.
U.S. GAAP vs. IFRS: Foreign currency matters resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.

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