

FX Subsidiary - Summary



IAS 21 Key Rules	
CSPLOCI	Translate @ average FX rate for the period
CSOFP	Translate Share Capital + Pre-Acquisition Reserves using FX Rate @ Date of Acquisition Translate Post-Acquisition Profits at rates at which they were earned (i.e. relevant average rate)
FX Differences	All FX differences shown in OCI Separate line item (Foreign Currency Translation Reserve or FX Reserve) in Equity section of CSOFP

FX Differences	1	2	3(a)	3(b)
	Net Assets	Profit/Loss	Goodwill	Fair Value Adjustment
Why?	Opening net assets would be translated at a different FX rate to closing net assets (e.g. 1 Jan vs 31 Dec rates)	SPLOCI is translated at average rate under IAS21 but assets & liabilities are translated at closing rate	IAS 21 (47) - goodwill is an asset of foreign operation & must be retranslated at closing rate	IAS 21 (47) - FV adjustment is an asset of foreign operation & must be retranslated at closing rate
NCI?	Yes, NCI will always get a portion of this FX difference	Yes, NCI will always get a portion of this FX difference	NCI only allocated a portion of this FX difference if it was initially measured using method 2 (i.e. at fair value)	Yes, NCI will always get a portion of this FX difference
How to calculate?	Compare opening net assets translated @ opening FX rate to opening net assets translated @ closing FX rate NB if prior year acquisition will have to split this difference between current year (OCI) & prior year (SOCE)	Compare the profit for the period translated at the average rate to the profit for the period translated at the closing FX rate NB if prior year acquisition will have to look at each year's profits separately & use the relevant average rate for each period also	Calculate goodwill as normal under IFRS 3 (using FX rates at date of acquisition to translate net assets of Sub) Retranslate the goodwill figure using the closing FX rate NB if prior year acquisition will have to retranslate at end of each period and split between current year (OCI) & prior year (SOCE) FX differences	Calculate FV adj as normal (using FX rates at date of acquisition) Retranslate the FV adjustment result using the closing FX rate NB if prior year acquisition will have to retranslate at end of each period and split between current year (OCI) & prior year (SOCE) FX differences
Presentation	1. Strip out of retained earnings & show in FX Reserve (Parent share) or NCI (NCI share) in CSOFP 2. Show current year portion in OCI [Prior year portion will be in opening SOCE balances]	1. Strip out of retained earnings & show in FX Reserve (Parent share) or NCI (NCI share) in CSOFP 2. Show current year portion in OCI [Prior year portion will be in opening SOCE balances]	1. Adjust goodwill for cumulative impact of FX differences since acquisition & show in FX Reserve or NCI (if relevant) in CSOFP 2. Show current year portion in OCI [Prior year portion will be in opening SOCE balances]	1. Adjust PPE for cumulative impact of FX differences since acquisition & show in FX Reserve or NCI (if relevant) in CSOFP 2. Show current year portion in OCI [Prior year portion will be in opening SOCE balances]

	CSOFP	CSPLOCI	CSOCE
Statement Presentation	FX Reserve in Equity Section (All Parent's share of FX Differences 1-3) [Cumulative FX Differences since Acq.] NCI (NCI's share of FX Differences 1-3) [Cumulative FX Differences since Acq.]	Other Comp. Income [Current Year portion of FX Differences 1-3] NB Apportion to NCI at end of CSPLOCI	Opening Balances [Prior Year portion of FX Differences 1-3] NB Split between FX Reserve (Parent Share) & NCI (NCI Share) Show movement in OCI in FX Reserve column from CSPLOCI in current period

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Suggested Approach - FX Consolidation	
Step 1	Read requirements + background information to case
Step 2	Briefly review all notes to question to (i) assess links between notes; (ii) key adjustments (intragroup, dividends etc.) (iii) note key dates (e.g. mid year acq./disposal); and (iv) identify group structure (sub, assoc, JV etc)
Step 3	Translate the Foreign Op SOFP using IAS 21 rules and leave retained earnings as a plug figure (See more below)
Step 4	Prepare working to calculate the cumulative FX differences in the plug figure (i.e. FX Difference 1 (Net Assets) & 2 (Profits)) NB If prior year acquisition you will also need to calculate the current year differences (for CSPLOCI) using same method The FX differences should be stripped out of retained earnings, presented seperately (FX Reserve line item) & the NCI should be apportioned its share
Step 5	Proceed as normal with the usual consolidation approach using the translated € based SOFP for the Sub
Step 6	Calculate goodwill initially based on historic spot rate and retranslate at closing rate - this is FX Diff 3(a) Apportion some of this FX difference to NCI if method 2 has been used only - otherwise all to FX Reserve NB If prior year acquisition you will also need to calculate the current year differences (for CSPLOCI) using same method
Step 7	Prepare the consolidated financial statements as normal (with relevant adjustments - watch for any FV adj. which is FX difference 3(b)) and include specific IAS21 issues; CSPLOCI Translate Foreign Op SPLOCI at average rate FX differences for the current year only - shown in OCI NCI allocated appropriate proportion - splitting Total Comprehensive Income (i.e. Profit + OCI) at end of CSPLOCI CSOFP Cumulative FX differences (Parent's share) shown as separate line item in equity section - "FX Reserve" or "Foreign Currency Translation Reserve" FX differences for NCI included in NCI line item CSOCE FX differences (Parent's share) have their own column - prior year differences (if relevant) should be in opening balance FX differences for NCI included in NCI column - prior year differences (if relevant) should be in opening balance

Translating the Sub's SOFP - Example			
	US\$'000 Given	FX Rate (IAS21 Rules)	€'000
PPE	X	CR	X
Inventory	X	CR	X
TR	X	CR	X
Cash	X	CR	X
Total Assets	<u>X</u>		<u>X</u>
OSC	X	HR	X
Share Premium	X	HR	X
RE	X	Plug*	X
Equity	X		X
Curr. Liab.			
TP	X	CR	X
Tax	X	CR	X
Equity & Liabilities	<u>X</u>		<u>X</u>
CR	Closing FX rate at reporting date		
HR	FX rate at date of acquisition		
* Plug figure includes:			
(i) Pre-acquisition retained earnings at the historic rate (i.e. rate at date of acquisition)			
(ii) Post-acquisition retained earnings at the rate earned (i.e. average rate in period when earned) - NB if prior period acquisition			
(iii) Cumulative FX differences since acquisition (FX Differences 1 & 2)			

Questions	
Current Year Acquisition	S'16 Q2
Prior Year Acquisition	S'14 Q2