Accounting Procedure - Foreign Currency

Section 1 - Background and Purpose

(1) This Procedure is applied in the preparation and the presentation of the consolidated financial statements of the group of entities under the control of the University. The financial statements include separate financial statements for the University as an individual entity and the consolidated entity (the "Group") consisting of the University and its controlled entities.

(2) This Procedure is applied in instances of:

a. accounting for transactions and balances in foreign currencies, except for derivative transactions and balances; and
b. translating the results and financial position of foreign operations that are included in the University's financial statements by consolidation or equity accounting.

(3) All entities within the Group are required to hedge the foreign risk exposure arising from foreign currency denominated borrowings over $150K. Any exception to this is approved by the Chief Financial Officer.

Section 2 - Scope

(4) Refer to the Accounting (Financial) Policy.

Section 3 - Policy Statement

(5) Refer to the Accounting (Financial) Policy.

Section 4 - Procedure

Functional Currency Approach

(6) The University uses the functional currency approach in dealing with foreign currency translation.

(7) Items included in the financial statements of the University's controlled entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Australian dollars, which is the University's functional currency.

Initial Measurement

(8) All transactions that are undertaken in a foreign currency are translated into the functional currency of the University. A foreign currency transaction is recorded 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. The date of transaction is the date on which the transaction first qualifies for recognition.

Subsequent Measurement

Subsequent Treatment of Monetary Items

(9) Monetary items held in a foreign currency shall be translated into the functional currency in the balance sheet at the closing rate. In instances where a monetary asset or liability has a rate of exchange that is fixed under the terms of the relevant contract, it cannot be used to translate the monetary assets and liabilities as this is a form of hedge accounting.

Subsequent Treatment of Non-Monetary Items

(10) Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rate at the date when the fair value was measured.

Recognition of Foreign Exchange Differences

(11) Foreign exchange gains and losses arising from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(12) When a gain or loss on a non-monetary item is recognised directly in equity, any exchange rate component of that gain or loss shall be recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised in the income statement, any exchange rate component of that gain or loss shall also be recognised in the income statement.

(13) On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings, are taken to equity. When a foreign operation is sold or borrowings repaid a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(14) Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of the foreign entities and translated at the closing rate.

Translation to Presentation Currency

(15) The results and financial position of all the University's controlled entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
b. income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
c. all resulting exchange differences are recognised as a separate component of equity

Section 5 - Definitions

(16) For the purpose of this Procedure:

a. Closing rate is the spot exchange rate at the reporting date.
b. Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
c. Functional Currency is the currency of the primary economic environment in which the entity operates. The functional currency in respect of the University is the Australian Dollar.
d. Monetary Asset/Liability are assets and/or liabilities to be received or paid in a fixed or determinable number of units of currency. Examples include:
    i. financial assets such as cash, bank balances and receivables;
    ii. financial liabilities such as debts and provisions that are settled in cash;
    iii. pensions and other employee benefits to be paid in cash, deferred taxes and cash dividends that are recognised as a liability; and
    iv. Derivative financial instruments such as forward exchange contracts, foreign currency swaps and options are also monetary items as they are settled at a future date.
e. Non-Monetary Asset/Liability are all items other than monetary items. In other words, the right to receive or deliver a fixed or determinable number of units of currency is absent in a non-monetary items. Examples include: intangible assets; goodwill; PPE; inventories; amounts prepaid for goods and services; equity investments; and provisions that are to be settled by the delivery of a non-monetary asset.
f. Presentation Currency is the currency in which the financial report is presented.
g. The Group means the University and its controlled entities.
h. The University means La Trobe University.

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Unit Head	Mark Smith Chief Finance and Operations Officer
Author	Chuan Tan Senior Accountant, Treasury +61 3 9479 6602
Enquiries Contact	Finance