INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

IPSAS 4—THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

IPSAS®

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History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2021.

IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* was issued in May 2000.

In December 2006 the IPSASB issued a revised IPSAS 4.

In April 2008 the IPSASB issued a revised IPSAS 4.

Since then, IPSAS 4 has been amended by the following IPSASs:

- *COVID-19: Deferral of Effective Dates* (issued November 2020)
- *Improvements to IPSAS 2018* (issued October 2018)
- IPSAS 41, *Financial Instruments* (issued in August 14, 2018)
- *The Applicability of IPSASs* (issued April 2016)
- IPSAS 37, *Joint Arrangements* (issued January 2015)
- IPSAS 35, *Consolidated Financial Statements* (issued January 2015)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (issued January 2015)
- *Improvements to IPSASs 2011* (issued October 2011)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)

Table of Amended Paragraphs in IPSAS 4

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	Improvements to IPSASs October 2011
3	Amended	IPSAS 37 January 2015 IPSAS 29 January 2010 IPSAS 41 August 2018
4	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018

Paragraph Affected	How Affected	Affected By
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38	Amended	IPSAS 37 January 2015
47	Amended	IPSAS 35 January 2015
50	Amended	IPSAS 37 January 2015
51	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015
53	Amended	IPSAS 35 January 2015
55	Amended	IPSAS 37 January 2015 IPSAS 35 January 2015
57	Amended	IPSAS 37 January 2015
57A	New	IPSAS 37 January 2015
57B	New	IPSAS 37 January 2015
57C	New	IPSAS 37 January 2015
57D	New	IPSAS 37 January 2015
58	Amended	IPSAS 37 January 2015
61	Amended	IPSAS 29 January 2010 IPSAS 41 August 2018
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68	Deleted	IPSAS 33 January 2015
69	Deleted	IPSAS 33 January 2015

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70A	New	Improvements to IPSAS October 2018
70B	New	Improvements to IPSAS October 2018
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71B	New	IPSAS 37 January 2015 IPSAS 35 January 2015
71C	New	The Applicability of IPSASs April 2016
71D	Amended	COVID-19: Deferral of Effective Dates November 2020
71E	New	Improvements to IPSAS October 2018
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Headings above paragraph A1	New	Improvements to IPSAS October 2018
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A2	New	Improvements to IPSAS October 2018
A3	New	Improvements to IPSAS October 2018
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A6	New	Improvements to IPSAS October 2018

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A8	New	Improvements to IPSAS October 2018
A9	New	Improvements to IPSAS October 2018
Headings above paragraph IE1	New	Improvements to IPSAS October 2018
IE1	New	Improvements to IPSAS October 2018
Heading above paragraph IE2	New	Improvements to IPSAS October 2018
IE2	New	Improvements to IPSAS October 2018
IE3	New	Improvements to IPSAS October 2018
IE4	New	Improvements to IPSAS October 2018
Heading above paragraph IE5	New	Improvements to IPSAS October 2018
IE5	New	Improvements to IPSAS October 2018
IE6	New	Improvements to IPSAS October 2018
IE7	New	Improvements to IPSAS October 2018
IE8	New	Improvements to IPSAS October 2018
IE9	New	Improvements to IPSAS October 2018
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IE15	New	Improvements to IPSAS October 2018
Heading above paragraph IE16	New	Improvements to IPSAS October 2018
IE16	New	Improvements to IPSAS October 2018
IE17	New	Improvements to IPSAS October 2018
IE18	New	Improvements to IPSAS October 2018
IE19	New	Improvements to IPSAS October 2018

April 2008

IPSAS 4—THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

CONTENTS

International Public Sector Accounting Standard 4, *The Effects of Changes in Foreign Exchange Rates*, is set out in paragraphs 1–73. All the paragraphs have equal authority. IPSAS 4 should be read in the context of its objective, the Basis for Conclusions, the *Preface to the International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity, and how to translate financial statements into a presentation currency.

2. The principal issues are (a) which exchange rate(s) to use, and (b) how to report the effects of changes in exchange rates in the financial statements.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:**

   (a) **In accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IPSAS 41, *Financial Instruments;***

   (b) **In translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation, or by the equity method; and**

   (c) **In translating an entity's financial performance and financial position into a presentation currency.**

4. IPSAS 41 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of IPSAS 41 (e.g., some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

5. This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. IPSAS 41 applies to hedge accounting.

6. [Deleted]

7. [Deleted]

8. This Standard applies to the presentation of an entity's financial statements in a foreign currency, and sets out requirements for the resulting financial statements to be described as complying with IPSASs. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.

9. This Standard does not apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see IPSAS 2, *Cash Flow Statements*).

Definitions

10. **The following terms are used in this Standard with the meanings specified:**

<u>Closing rate</u> is the spot exchange rate at the reporting date.

<u>Exchange difference</u> is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

<u>Exchange rate</u> is the ratio of exchange for two currencies.

<u>Foreign currency</u> is a currency other than the functional currency of the entity.

<u>Foreign operation</u> is an entity that is a controlled entity, associate, joint arrangement, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

<u>Functional currency</u> is the currency of the primary economic environment in which the entity operates.

<u>Monetary items</u> are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

<u>Net investment in a foreign operation</u> is the amount of the reporting entity's interest in the net assets/equity of that operation.

<u>Presentation currency</u> is the currency in which the financial statements are presented.

<u>Spot exchange rate</u> is the exchange rate for immediate delivery.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Functional Currency

11. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

    (a) The currency:

        (i) That revenue is raised from, such as taxes, grants, and fines;

(ii) That mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(iii) Of the country whose competitive forces and regulations mainly determine the sale prices of its goods and services.

(b) The currency that mainly influences labor, material, and other costs of providing goods and services (this will often be the currency in which such costs are denominated and settled).

12. The following factors may also provide evidence of an entity's functional currency:

(a) The currency in which funds from financing activities (i.e., issuing debt and equity instruments) are generated.

(b) The currency in which receipts from operating activities are usually retained.

13. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate, or joint arrangement):

(a) Whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when a department of defense has a number of overseas bases that conduct activities on behalf of a national government. The defense bases might conduct their activities substantially in the functional currency of the reporting entity. For example, military personnel may be paid in the functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity, with purchases in local currency being kept to a minimum. Another example would be an overseas campus of a public university that operates under the management and direction of the domestic campus. In contrast, a foreign operation with a significant degree of autonomy may accumulate cash and other monetary items, incur expenses, generate revenue, and perhaps arrange borrowings, all substantially in its local currency. Some examples of government-owned foreign operations that may operate independently of other government agencies include tourist offices, petroleum exploration companies, trade boards, and broadcasting operations. Such entities may be established as commercial public sector entities.

(b) Whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.

(c) Whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.

(d) Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

14. When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events, and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 11 before considering the indicators in paragraphs 12 and 13, which are designed to provide additional supporting evidence to determine an entity's functional currency.

15. An entity's functional currency reflects the underlying transactions, events, and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events, and conditions.

16. If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with IPSAS 10, *Financial Reporting in Hyperinflationary Economies*. An entity cannot avoid restatement in accordance with IPSAS 10 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its controlling entity).

Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social policy obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends or similar distributions that are recognized as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g., prepaid rent); goodwill; intangible assets; inventories; property, plant, and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

Net Investment in a Foreign Operation

18. An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance

with paragraphs 37 and 38. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

19. The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 18 may be any controlled entity of the economic entity. For example, an entity has two controlled entities, A and B. Controlled entity B is a foreign operation. Controlled entity A grants a loan to controlled entity B. Controlled entity A's loan receivable from controlled entity B would be part of the controlled entity A's net investment in controlled entity B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if controlled entity A were itself a foreign operation.

Summary of the Approach Required by This Standard

20. In preparing financial statements, each entity – whether a stand-alone entity, an entity with foreign operations (such as a controlling entity), or a foreign operation (such as a controlled entity or branch) – determines its functional currency in accordance with paragraphs 11−16. The entity translates foreign currency items into its functional currency, and reports the effects of such translation in accordance with paragraphs 23–42 and 59.

21. Many reporting entities comprise a number of individual entities (e.g., an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint arrangements. They may also have branches. It is necessary for the financial performance and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The financial performance and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 43–59.

22. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IPSAS 34, *Separate Financial Statements*, to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its financial performance and financial position are also translated into the presentation currency in accordance with paragraphs 43–59.

Reporting Foreign Currency Transactions in the Functional Currency

Initial Recognition

23. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

    (a) Buys or sells goods or services whose price is denominated in a foreign currency;

    (b) Borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

    (c) Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

24. **A foreign currency transaction shall be 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.**

25. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with IPSASs. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

26. Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in IPSAS 2. Although these changes are not cash flows, the effect of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing, and financing activities, and include the differences, if any, if those cash flows had been reported at end-of-period exchange rates.

Reporting at Subsequent Reporting Dates

27. **At each reporting date:**

    (a) **Foreign currency monetary items shall be translated using the closing rate;**

    (b) **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; and**

(c) **Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.**

28. The carrying amount of an item is determined in conjunction with other relevant IPSASs. For example, property, plant, and equipment may be measured in terms of fair value or historical cost in accordance with IPSAS 17, *Property, Plant, and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency, it is then translated into the functional currency in accordance with this Standard.

29. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories held for sale is the lower of cost and net realizable value in accordance with IPSAS 12, *Inventories*. Similarly, in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets*, the carrying amount of a non-cash generating asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable service amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

(a) The cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (i.e., the rate at the date of the transaction for an item measured in terms of historical cost); and

(b) The net realizable value or recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g., the closing rate at the reporting date).

The effect of this comparison may be that an impairment loss is recognized in the functional currency, but would not be recognized in the foreign currency, or vice versa.

30. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of Exchange Differences

31. As noted in paragraph 5, this Standard does not deal with hedge accounting for foreign currency items. Guidance in relation to hedge accounting, including the criteria for when to use hedge accounting, can be found in IPSAS 41.

32. **Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at**

which they were translated on initial recognition during the period or in previous financial statements, shall be recognized in surplus or deficit in the period in which they arise, except as described in paragraph 37.

33. When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognized in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognized in each period up to the date of settlement is determined by the change in exchange rates during each period.

34. The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph 26.

35. **When a gain or loss on a non-monetary item is recognized directly in net assets/equity, any exchange component of that gain or loss shall be recognized directly in net assets/equity. Conversely, when a gain or loss on a non-monetary item is recognized in surplus or deficit, any exchange component of that gain or loss shall be recognized in surplus or deficit.**

36. Other IPSASs require some gains and losses to be recognized directly in net assets/equity. For example, IPSAS 17 requires some gains and losses arising on a revaluation of property, plant, and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 27(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

37. **Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 18) shall be recognized in surplus or deficit in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g., consolidated financial statements when the foreign operation is a controlled entity), such exchange differences shall be recognized initially in a separate component of net assets/equity, and recognized in surplus or deficit on disposal of the net investment in accordance with paragraph 57.**

38. When a monetary item forms part of a reporting entity's net investment in a foreign operation, and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 32. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 32. If such an item is denominated

in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 32. Such exchange differences are reclassified to the separate component of net assets/equity in the financial statements that include the foreign operation and the reporting entity (i.e., financial statements in which the foreign operation is consolidated, or accounted for using the equity method).

39. When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 23−30. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in Functional Currency

40. **When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.**

41. As noted in paragraph 15, the functional currency of an entity reflects the underlying transactions, events, and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events, and conditions. For example, a change in the currency that mainly influences the sales prices or the provision of goods and services may lead to a change in an entity's functional currency.

42. The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in net assets/equity in accordance with paragraphs 37 and 44(c) are not recognized in surplus or deficit until the disposal of the operation.

Use of a Presentation Currency Other than the Functional Currency

Translation to the Presentation Currency

43. An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it

translates its financial performance and financial position into the presentation currency. For example, when an economic entity, such as an international organization, contains individual entities with different functional currencies, the financial performance and financial position of each entity are expressed in a common currency, so that consolidated financial statements may be presented. For national or state/provincial governments, the presentation currency is normally determined by the ministry of finance (or similar authority), or established in legislation.

44. **The financial performance and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

   (a) **Assets and liabilities for each statement of financial position presented (i.e., including comparatives) shall be translated at the closing rate at the date of that statement of financial position;**

   (b) **Revenue and expenses for each statement of financial performance (i.e., including comparatives) shall be translated at exchange rates at the dates of the transactions; and**

   (c) **All resulting exchange differences shall be recognized as a separate component of net assets/equity.**

45. In translating the cash flows, that is the cash receipts and cash payments, of a foreign operation for incorporation into its cash flow statement, the reporting entity shall comply with the procedures in IPSAS 2. IPSAS 2 requires that the cash flows of a controlled entity that satisfies the definition of a foreign operation shall be translated at the exchange rates between the presentation currency and the foreign currency at the dates of the cash flows. IPSAS 2 also outlines the presentation of unrealized gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents held or due in a foreign currency.

46. For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate revenue and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

47. The exchange differences referred to in paragraph 44(c) result from:

(a) Translating revenue and expenses at the exchange rates at the dates of the transactions, and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognized in surplus or deficit, and on those recognized directly in net assets/equity.

(b) Translating the opening net assets/equity at a closing rate that differs from the previous closing rate.

These exchange differences are not recognized in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but is not wholly owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognized as part of, non-controlling interests in the consolidated statement of financial position.

48. **The financial performance and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

(a) **All amounts (i.e., assets, liabilities, net assets/equity items, revenue, and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that**

(b) **When amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e., not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).**

49. **When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with IPSAS 10 before applying the translation method set out in paragraph 48, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph 48(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with IPSAS 10, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.**

Translation of a Foreign Operation

50. Paragraphs 51–56, in addition to paragraphs 43–49, apply when the financial performance and financial position of a foreign operation are translated into a presentation currency, so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, or the equity method.

51. The incorporation of the financial performance and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS 35, *Consolidated Financial Statements*.)

52. However, a monetary asset (or liability) within an economic entity, whether short-term or long-term, cannot be eliminated against the corresponding liability (or asset) within an economic entity without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item (a) represents a commitment to convert one currency into another, and (b) exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference continues to be recognized in surplus or deficit or, if it arises from the circumstances described in paragraph 37, it is classified as net assets/equity until the disposal of the foreign operation.

53. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. IPSAS 35 specifies requirements for when the reporting period of the controlling entity is different from that of a controlled entity.

54. When there is a difference between the reporting date of the reporting entity and the foreign operation, the assets and liabilities of the foreign operation are translated at the exchange rate at the reporting date of the foreign operation.

55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS 35. The same approach is used in applying the equity method to associates and joint ventures in accordance with IPSAS 36, *Investments in Associates and Joint Ventures*.

56. **Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus, they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 44 and 48.**

Disposal or Partial Disposal of a Foreign Operation

57. **On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation and accumulated in a separate component of net assets/equity shall be reclassified from net assets/equity to surplus or deficit when the gain or loss on disposal is recognized (see IPSAS 1, *Presentation of Financial Statements)*.**

57A. In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals:

(a) When the partial disposal involves the loss of control of a controlled entity that includes a foreign operation, regardless of whether the entity retains a non-controlling interest in its former controlled entity after the partial disposal; and

(b) When the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

57B. On disposal of a controlled entity that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be transferred directly to accumulated surplus/deficit.

57C. **On the partial disposal of a controlled entity that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences accumulated in a separate category of net assets/equity to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall transfer to accumulated surplus/deficit only the proportionate share of the cumulative amount of the exchange differences accumulated in net assets/equity.**

57D. A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph 57A that are accounted for as disposals.

58. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital, or abandonment of all or part of that entity. The payment of a dividend or similar distribution is part of a disposal only when it constitutes a return of the investment, for example when the dividend or similar distribution is paid out of pre-acquisition surplus. A writedown of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognized by the entity holding the interest, does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized in surplus or deficit at the time of a writedown.

Tax Effects of Exchange Differences

59. For reporting entities subject to income taxes, guidance on the treatment of (a) tax effects associated with the gains and losses on foreign currency transactions, and (b) exchange differences arising on translating the financial performance and financial position of an entity (including a foreign operation) into a different currency, can be found in the relevant international or national accounting standards dealing with income taxes.

Disclosure

60. **In paragraphs 62 and 64–66, references to "functional currency" apply, in the case of an economic entity, to the functional currency of the controlling entity.**

61. **The entity shall disclose:**

    (a) **The amount of exchange differences recognized in surplus or deficit, except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with IPSAS 41; and**

    (b) **Net exchange differences classified in a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**

62. **When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.**

63. **When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.**

64. **When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with IPSASs only if they comply with all the requirements of each applicable Standard, including the translation method set out in paragraphs 44 and 48.**

65. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 64. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with IPSASs and the disclosures set out in paragraph 66 are required.

66. **When an entity displays its financial statements or other financial information in a currency that is different from either its functional**

currency or its presentation currency and the requirements of paragraph 64 are not met, it shall:

(a) **Clearly identify the information as supplementary information, to distinguish it from the information that complies with IPSASs;**

(b) **Disclose the currency in which the supplementary information is displayed; and**

(c) **Disclose the entity's functional currency and the method of translation used to determine the supplementary information.**

Transitional Provisions

First-time Adoption of Accrual Accounting

67. [Deleted]

68. [Deleted]

69. [Deleted]

70. [Deleted]

Foreign Currency Transactions and Advance Consideration (Amendments made by *Improvements to IPSAS, 2018*)

70A. On initial application, an entity shall apply the requirements of Appendix A either:

(a) Retrospectively applying IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) Prospectively to all assets, expenses and revenue in the scope of Appendix A initially recognized on or after:

(i) The beginning of the reporting period in which the entity first applies Appendix A; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies Appendix A.

70B. An entity that applies paragraph 70A(b) shall, on initial application, apply Appendix A to assets, expenses and revenue initially recognized on or after the beginning of the reporting period in paragraph 70A(b)(i) or (ii) for which the entity has recognized non-monetary assets or non-monetary liabilities arising from advance consideration before that date.

Effective Date

71. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2010. Earlier**

application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2010, it shall disclose that fact.

71A. **Paragraphs 67, 68, 69, 70 and 72 were amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* issued in January 2015. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendments shall also be applied for that earlier period.**

71B. **IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 3(b), 10, 13, 21, 22, 38, 47, 50, 51, 53, 55, 57 and 58 and added paragraphs 57A, 57B, 57C and 57D. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.**

71C. **Paragraphs 6 and 7 were deleted and paragraph 13 was amended by *The Applicability of IPSASs*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

71D. **Paragraphs 3, 4, 5, 31 and 61 were amended by IPSAS 41, issued in August 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

71E. **Paragraphs 70A and 70B, and Appendix A (paragraphs A1–A9) were added by *Improvements to IPSAS, 2018*, issued in October 2018. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies these amendments for a period beginning before January 1, 2019, it shall disclose that fact.**

72. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

Withdrawal of IPSAS 4 (2006)

73. This Standard supersedes IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, issued in 2006.

Appendix A

Foreign Currency Transactions and Advance Consideration

This Appendix is an integral part of IPSAS 4

Introduction

A1. Paragraph 24 of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph 25 of IPSAS 4 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with IPSAS.

A2. When an entity pays or receives consideration in advance in a foreign currency, it generally recognizes a non-monetary asset or non-monetary liability before the recognition of the related asset, expense or revenue. The related asset, expense or revenue (or part of it) is the amount recognized applying relevant IPSAS, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.

A3. This Appendix clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue when an entity has received or paid advance consideration in a foreign currency.

Scope

A4. This Appendix applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or revenue (or part of it).

A5. This Appendix does not apply when an entity measures the related asset, expense or revenue on initial recognition:

(a) At fair value; or

(b) At the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IPSAS 40, *Public Sector Combinations*).

A6. An entity is not required to apply this Appendix to:

(a) Income taxes; or

(b) Insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

Application of IPSAS 4 to Foreign Currency Transactions and Advance Consideration

A7. This Appendix addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

A8. Applying paragraphs 24–25 of IPSAS 4, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

A9. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Illustrative Examples

These Illustrative Examples accompany, but are not part of, IPSAS 4

Foreign Currency Transactions and Advance Consideration

In these Illustrative Examples, foreign currency amounts are 'Foreign Currency' (FC) and functional currency amounts are 'Local Currency' (LC).

IE1. The objective of these examples is to illustrate how an entity determines the date of the transaction when it recognizes a non-monetary asset or non-monetary liability arising from advance consideration in a foreign currency before it recognizes the related asset, expense or revenue (or part of it) applying relevant IPSAS.

Example 1—A Single Advance Payment for the Purchase of a Single Item of Property, Plant and Equipment

IE2. On March 1, 20X1, Entity A entered into a contract with a supplier to purchase a machine for use in its operations. Under the terms of the contract, Entity A pays the supplier a fixed purchase price of FC1,000 on April 1, 20X1. On April 15, 20X1, Entity A takes delivery of the machine.

IE3. Entity A initially recognizes a non-monetary asset translating FC1,000 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on April 1, 20X1. Applying paragraph 27(b) of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates,* Entity A does not update the translated amount of that non-monetary asset.

IE4. On April 15, 20X1, Entity A takes delivery of the machine. Entity A derecognizes the non-monetary asset and recognizes the machine as property, plant and equipment applying IPSAS 17, *Property, Plant and Equipment*. On initial recognition of the machine, Entity A recognizes the cost of the machine using the exchange rate at the date of the transaction, which is April 1 20X1 (the date of initial recognition of the non-monetary asset).

Example 2—Multiple Receipts for Revenue Recognized at a Single Point in Time

IE5. On June 1, 20X2, Entity B entered into a contract with a customer to deliver goods on September 1, 20X2. The total fixed contract price is an amount of FC100, of which FC40 is due and received on August 1, 20X2 and the balance is receivable on September 30, 20X2.

IE6. Entity B initially recognizes a non-monetary contract liability translating FC40 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on August 1, 20X2. Applying paragraph 27(b) of IPSAS 4, Entity B does not update the translated amount of that non-monetary liability.

IE7. Applying paragraph 28 of IPSAS 9, *Revenue from Exchange Transactions*, Entity B recognizes revenue on September 1, 20X2, the date on which it transfers the goods to the customer.

IE8. Entity B determines that the date of the transaction for the revenue relating to the advance consideration of FC40 is August 1, 20X2. Applying paragraph 25 of IPSAS 4, Entity B determines that the date of the transaction for the remainder of the revenue is September 1, 20X2.

IE9. On September 1, 20X2, Entity B:

(a) Derecognizes the contract liability of FC40 and recognizes revenue using the exchange rate on August 1, 20X2; and

(b) Recognizes revenue of FC60 and a corresponding receivable using the exchange rate on that date (September 1 20X2).

IE10. The receivable of FC60 recognized on September 1, 20X2 is a monetary item. Entity B updates the translated amount of the receivable until the receivable is settled.

Example 3—Multiple Payments for Purchases of Services Over a Period of Time

IE11. On May 1 20X3, Entity C entered into a contract with a supplier for services. The supplier will provide the services to Entity C evenly over the period from July 1, 20X3 to December 31 20X3. The contract requires Entity C to pay the supplier FC200 on June 15, 20X3 and FC400 on December 31, 20X3. Entity C has determined that, for this contract, the payment of FC200 on June 15 20X3 relates to the services to be received in the period July 1–August 31, 20X3, and the payment of FC400 on December 31, 20X3 relates to the services to be received in the period September 1–December 31, 20X3.

IE12. Entity C initially recognizes a non-monetary asset translating FC200 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on June 15, 20X3.

IE13. In the period July 1–August 31, 20X3, Entity C derecognizes the non-monetary asset and recognizes an expense of FC200 in surplus or deficit as it receives the services from the supplier. Entity C determines that the date of the transaction for the expense related to the advance consideration of FC200 is June 15, 20X3 (the date of initial recognition of the non-monetary asset).

IE14. In the period September 1–December 31, 20X3, Entity C initially recognizes the expense in surplus or deficit as it receives the services from the supplier. In principle, the dates of the transaction are each day in the period September 1–December 31, 20X3. However, if exchange rates do not fluctuate significantly, Entity C may use a rate that approximates the actual rates as permitted by paragraph 25 of IPSAS 4. If that is the case, Entity C may, for example, translate each month's expense of FC100 (FC400 ÷ 4) into its functional currency using the average exchange rate for each month for the period September 1–December 31, 20X3.

IE15. As Entity C recognizes the expense in the period September 1–December 31, 20X3, it recognizes a corresponding liability in respect of its obligation to pay the supplier. The liability is a monetary item. Entity C updates the translated amount of the liability until the liability is settled.

Example 4—Multiple Receipts for Revenue Recognized at Multiple Points in Time

IE16. On January 1, 20X4, Entity D enters into a contract to sell two products to a customer. Entity D transfers one product on March 1, 20X4 and the second on June 1 20X4. As required by the contract, the customer pays a fixed purchase price of FC1,000, of which FC200 is due and received in advance on January 31, 20X4 and the balance is due and received on June 1, 20X4.

IE17. The following facts are relevant:

(a) The price of the first product is FC450 and the price of the second product is FC550.

(b) Entity D has determined that, for this contract, the consideration of FC200 received on January 31, 20X4 relates to the first product transferred on March 1, 20X4. On transfer of that product to the customer, Entity D has an unconditional right to FC250 of the remaining consideration.

IE18. The spot exchange rates are:

Date	**Spot exchange rate FC:LC**
January 31, 20X4	1:1.5
March 1, 20X4	1:1.7
June 1, 20X4	1:1.9

IE19. The following journal entries illustrate how Entity D accounts for the foreign currency aspects of the contract:

(a) Entity D receives the advance payment of FC200 on January 31, 20X4, which it translates into its functional currency using the exchange rate at January 31, 20X4.

Dr Cash (FC200)	LC300	
Cr Contract liability (FC200)		LC300

(b) Applying paragraph 27(b) of IPSAS 4, Entity D does not update the translated amount of the non-monetary contract liability.

(c) Entity D transfers the first product with a price of FC450 on March 1, 20X4. Entity D derecognizes the contract liability and recognizes revenue of LC300. Entity D recognizes the remaining revenue of FC250 relating to the first product and a corresponding receivable, both of which it translates at the exchange rate at the date that it initially recognizes the remaining revenue of FC250, i.e., March 1, 20X4.

Dr Contract liability (FC200)	LC300	
Dr Receivable (FC250)	LC425	
Cr Revenue (FC450)		LC725

(d) The receivable of FC250 is a monetary item. Entity D updates the translated amount of the receivable until the receivable is settled (June 1, 20X4). At June 1, 20X4, the receivable of FC250 is equivalent to LC475. As required by paragraph 32 of IPSAS 4, Entity D recognizes an exchange gain of LC50 in surplus or deficit.

Dr Receivable	LC50	
Cr Foreign exchange gain		LC50

(e) Entity D transfers the second product with a price of FC550 on June 1, 20X4. Entity D recognizes revenue of FC550 using the exchange rate at the date of the transaction, which is the date that Entity D first recognizes this part of the transaction in its financial statements, i.e., June 1, 20X4.

(f) Entity D also receives the remaining consideration of FC800 on June 1, 20X4. FC250 of the consideration received settles the receivable of FC250 arising on the transfer of the first product. Entity D translates the cash at the exchange rate at June 1, 20X4.

Dr Cash (FC800)	LC1,520	
Cr Receivable (FC250)		LC475
Cr Revenue (FC550)		LC1,045

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 4.

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSASs with IFRSs issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure, and text of the IFRSs, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the *Comparison with IFRS* included in each IPSAS. The Comparison with IAS 21 references only the version of IAS 21 that was revised in 2003 and amended in 2005.[1]

BC3. In May 2000, the IPSASB's predecessor, the Public Sector Committee (PSC),[2] issued the first version of IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, which was based on IAS 21, *The Effects of Changes in Foreign Exchange Rates* (1993). In December 2006, the IPSASB revised IPSAS 4, which was based on IAS 21 (Revised 2003), as part of its General Improvements Project. In December 2005, the IASB issued an amendment to IAS 21 (published as *Net Investment in a Foreign Operation*.)

BC4. In early 2007, the IPSASB initiated a continuous improvements project to update existing IPSASs to be converged with the latest related IFRSs to the extent appropriate for the public sector. As part of the project, the IPSASB reviewed the IASB's amendment to IAS 21 issued in December 2005 and generally concurred with the IASB's reasons for amending the IAS and with the amendment made. (The IASB's Basis for Conclusions as a result of the amendment is not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Basis for Conclusions on the IASB's website at http://www.iasb.org).

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1 The International Accounting Standards (IASs) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

2 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

BC5. IAS 21 has been further amended as a consequence of IFRSs and revised IASs issued after December 2005. IPSAS 4 does not include the consequential amendments arising from IFRSs or revised IASs issued after December 2005. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs and the revisions to those IASs to public sector entities.

Revision of IPSAS 4 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC6. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 4 as a result of *Improvements to IPSAS, 2018*

BC7. The IPSASB reviewed the requirements of IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, issued by the IASB in December 2016, and the considerations of the IFRS Interpretations Committee in reaching its consensus as set out in its Basis for Conclusions. The IPSASB generally concurred that there was no public sector specific reason for not incorporating these requirements into IPSAS 4.

Comparison with IAS 21

IPSAS 4, *The Effects of Changes in Foreign Exchange Rates* is drawn primarily from IAS 21, *The Effects of Changes in Foreign Exchange Rates* (revised in 2003, as amended in 2005). The main differences between IPSAS 4 and IAS 21 are as follows:

- IPSAS 4 uses different terminology, in certain instances, from IAS 21. The most significant examples are the use of the terms "revenue," "economic entity," "statement of financial performance," and "net assets/equity" in IPSAS 4. The equivalent terms in IAS 21 are "income," "group," "statement of comprehensive income," and "equity."