Contents

Preface xiii

Acknowledgments xvii

Introduction to Foreign Currency and Exchange Rates .................. 1

Who You Are 1
What You Know 2
A Changing Environment 2
Certainty in Uncertain Times 4
Notes 4

PART I THE BASICS

Chapter 1 Isn’t Currency Conversion
Just Multiplication? ....................................................... 9

Conversion 10
The First Complication: It’s Not Just Multiplication 11
Where Do Exchange Rates Come From? 11
The Market 13
A Second Complication: Triangulation 17
Triangulation with Cross Rates 19
Quotes 20
Currencies and Exchange Rates: Highlights of Their Relevance
and Recent History 22
Burgers and Currency 25
Notes 27
Chapter 2  Exchange Rate Tables: Getting from Yen to Euro without Losing Your Way ..............................31

The Foundation and Caveats  32
Terms and Terminology  33
Triangulation and Cross Rates—Redux  35
Exchange Rate Tables  37
Keep It Simple  42
Notes  42

Chapter 3  Approximation: When Mathematics, Computer Science, and Regulations Converge.........................43

The Original Data: Accurate and Precise  45
Significant Digits and Scientific Notation  46
Precision  48
Accuracy  50
What Division Means for Computers  52
Precision with Floating Point Data  53
Accuracy, Precision, and Credibility  55
Notes  56

PART II  KEY CONCEPTS AND AUTHORITATIVE STANDARDS

Chapter 4  What’s in a Name? ......................................................61

Standards  62
A Brief Background  62
IFRS Predominance with a FASB Pedigree  64
The Economic Essence: From Names to Definitions  65
Functional Currency  66
All the Rest  69
A Foundation  71
Notes  71
Chapter 5  The Gold Standard: Following the Standard for Fiat Currencies ........................................ 75

The Gold Standard for Financial Reporting 76
IAS21 and ASC 830: Converged, but Not Identical 81
Translation Overview 82
Translation—Not Conversion 83
Translation of Income and Expense 86
Averages 92
Simple Translation 93
Translation 1: Basic 93
Translation 2: Intermediate 94
Convenience Translation 101
The Standard 105
Notes 106

Chapter 6  They’re Not Synonyms: Transaction to Translation, Revaluation to Remeasurement ..........109

Transactions and Translation 110
Transactions in a Foreign Currency 111
Reporting at Balance Sheet Dates 114
Remeasurement 118
Best of Intentions: Companies’ Divergent Paths 119
Changing Functional Currency 122
Knowledge Worth Having 122
Notes 123

PART III  PRACTICAL APPLICATIONS (AND MORE CONCEPTS)

Chapter 7  The Intersection: Interplay of Mathematics, Exchange Rates, Accounting Standards, Economics, and Time ...............................................................129

Time Concepts: PA, PIT, and POT  131
Chapter 10 Cumulative Translation Adjustment:
The Algebraic Plug .................................................... 213

Baggage from the Past: Accumulating the
Translation Adjustment  214
Recalculating CTA  220
Translation Adjustment and Intragroup Monetary
Transactions  224
Cumulative Translation Adjustment Is Not Remeasurement  225
A Little Fun with CTA  229
Problem Solved  229
Notes  233

Chapter 11 The Residual .............................................................. 235

Redenomination  236
Devaluations and Revaluations  237
Hyperinflationary Economies  238
Euro Adoption  240
Nonmonetary Assets (Inventory) Measured
in a Foreign Currency  241
Disposal of a Foreign Operation  242
A Simple Forward Contract: Hedging  243
Heuristic Approach  244
Notes  244

Conclusion: Reinvent the Triangle:
Innovate and Advocate ............................................. 247

The Benefit  248
Notes  249

Appendix A: World Currency Formats
and ISO 4217 Information  251

Appendix B: Useful Links, and Why They’re Useful  267
Appendix C: Exchange Rate Requirements  275

Definition of Actual Rates  276
Definition of Constant Currency Rates  277
Definition of Forecast Rates  277
Definition of Views  277
Definition of High (USH) and Low (USL) Rates  279
Definition of Rates in the Tables  279

Glossary  283

About the Author  289

Index  291