**International Journal of Emerging Research in Engineering and Technology**
Pearl Blue Research Group| Volume 6 Issue 4 PP 88-91, 2025
ISSN: 3050-922X | https://doi.org/10.63282/3050-922X.IJERET-V6I4P111

*Original Article*

# Foreign Currency Accounting: Remeasurement and Translation Explained

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***Received On: 06/09/2025 Revised On: 18/09/2025 Accepted On: 11/10/2025 Published On: 30/10/2025***

***Abstract*** *- Finance is one of the most diverse and complex areas in international trade. Each country has their own rules, regulations and statutory requirements for managing financial transactions in their territories whereas business partners from other geographies or foreign investors may not be well versed with local laws and regulations, hence accounting standards such as IFRS (International Financial Reporting Standards) and GAAP (Generally Accepted Accounting Principles) have been established over a period of time to bring uniformity in financial practices and reporting so that it will be easier for anyone to understand the financials of any organization following these standards. Foreign Currency Remeasurement and Translation are two terms that are used quite interchangeably due to lack of knowledge or clear understanding. Both Foreign Currency Remeasurement and Translation are quite different from each other and have their specific definitions and treatment to be followed as per accounting standards such as IFRS, GAAP etc. This article discusses Foreign Currency Remeasurement and translation, their uses and accounting standards established around these two concepts.*

***Keywords*** *- Foreign Currency Remeasurement, Realized and Unrealized Foreign Exchange Gains or Losses, Foreign Currency Translation, Other Comprehensive Income, International Financial Reporting Standards (IFRS), US GAAP (Generally Accepted Accounting Principles), SAP S/4HANA.*

## 1. Introduction

Financial statements are usually generated at period end for statutory reporting requirements. We need to ensure the data provided in the financial statements is accurate and compliant with the reporting standards. Financial Statements would be accurate only after performing all the period end activities. Foreign Currency Remeasurement and Foreign Currency Translation are few of the most important period end activities that should be performed for an organization with subsidiaries operating in other territories with foreign currencies. Both Foreign Currency Remeasurement and Translation are needed for statutory reporting. They also help management in evaluating exchange rates impact on financials performance of the organization and group reporting.

## 2 Accounting Standards for Foreign Currency Remeasurement and Translation:

Both International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) provide guidance on remeasurement and translation.

IFRS: IAS 21, “The Effects of Changes in Foreign Exchange Rates” and GAAP: ASC 830, “Foreign Currency Matters” provides guidance on the processes or standards to be followed for remeasuring foreign currency transactions into the functional currency and translating foreign currency financial statements into reporting currency.

### *2.1. What is Foreign Currency Remeasurement:*

Foreign Currency Remeasurement is a period end activity through which the values recorded in foreign denominated currencies are valuated using spot rate valid at period end and posted in Operational Currency. Difference between original amount and valuated amount in operational currency is considered as foreign exchange gain or loss.

### *2.2. Significance of Foreign Currency Remeasurement:*

1. **Accurate Financial Reporting:** Disclosing accurate financials is one of the fundamental requirements for any organizations for the benefit of its investors and other stakeholders. Inaccurate financial disclosures is considered as a financial crime as it can misguide investors [1].
2. **Statutory Reporting Requirements:** Revaluating foreign currency is a statutory requirement in many countries and is also an accounting standard that must be followed as per IAS 21, IFRS, US GAAP to ensure transparency and consistency in financial reporting [1].
3. **Impact on Financial Performance:** Exchange Rates fluctuate everyday in global financial markets, and their impact can be huge on financials. Calculating foreign exchange gains or losses provides clear visibility on what is true financial performance of an organization and to what extent the changes in exchange rates have impacted an organization’s net profit or loss.
4. **Decision Making:** Remeasurement of foreign currency helps analyze trends in foreign exchange movements so that important decisions can be made such as revising pricing structures as per the

changing exchange rates, exploring other geographies that can serve the needs of an organization with stable currency.

### *2.3. What is Foreign Currency Translation:*

Foreign Currency Translation is the process of converting foreign subsidiary's financial statements into group currency so that consolidated financial statements can be generated for both management and statutory reporting.

### *2.4. Objectives of Foreign Currency Translation:*

1. **Consolidation of Financial Statements in Group Currency:** Foreign Currency Translation helps the organization in converting financials from various currencies into group currency so that financial performance of each subsidiary can be evaluated and compared in group currency. It also helps to review the financial performance of the whole organization while fulfilling both internal and external reporting requirements.
2. **Reporting Standards:** There are a set of guidelines issued by IFRS and GAAP on how to translate various financial transactions into group currency from local currency, hence translating Foreign Currency transactions into group currency helps in meeting reporting standards.
3. **Streamlines Process for managing transactions in foreign currencies:** Periodic process established for translating foreign currency transactions into group currency minimizes the manual invention needed and becomes an integral part day to day business activities.

## 3. Remeasurement and Translation Methods:

The International Accounting Standards Board requires organizations with foreign operations to adopt a consistent remeasurement and translation method for accurate financial reporting and transparency in financial practices. Below are the two methods that have procedures defined by both IFRS and US GAAP for remeasuring and translating transactions from foreign currencies to functional currency and from functional currencies to group currency.

### *3.1. The Current Rate Method [3] [4]:*

Current Rate Method is used to translate a foreign subsidiary's financial statements from its functional currency into the parent company's presentation currency. Under this method, Income Statement Accounts are translated using Average Rate whereas Balance Sheet Accounts are translated using Current Rates. Shareholders equity is translated using historical exchange rate.

### *3.2. The Temporal Method [3] [4]:*

This method is used to translate foreign currency transactions into a company's functional currency. This method classifies Assets and Liabilities as monetary and non-monetary items. Monetary assets and liabilities are items that are settled in cash, which include cash, receivables, payables, and debt. Non-monetary assets and liabilities are not settled in cash. They include inventory, fixed assets, intangible assets, and unearned revenue. Monetary Assets and Liabilities are translated using current rates whereas Non-Monetary Assets and Liabilities are translated using historical exchange rates. Expenses related to non-monetary assets, such as the cost of goods and services (COGS) and depreciation, are translated at the historical exchange rate. Revenue and other expenses are translated using the average exchange rate.

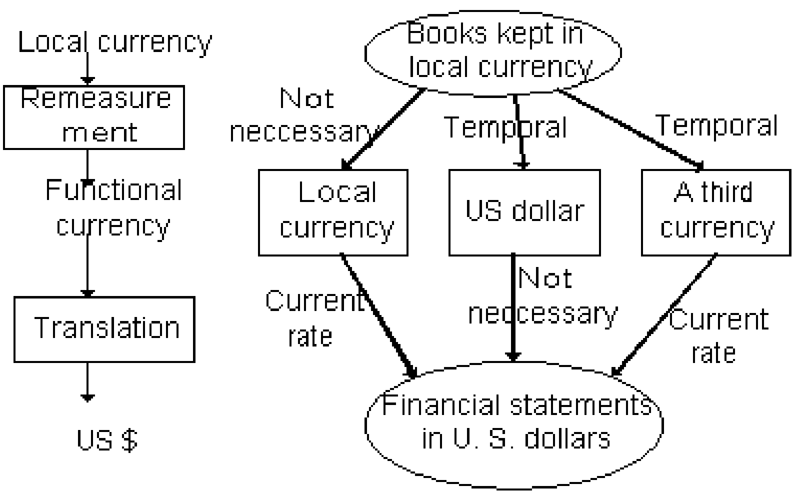


**Fig 1: Process Outlining When Foreign Currency Measurement and Translation Are Needed [2]**

## 4. Key Differences between Remeasurement and Translation:

Understanding the differences between remeasurement and translation is critical for accurate financial reporting. Here are the main differences:

### *4.1. Purpose:*

- **Remeasurement**: Adjusts financial statements to reflect the functional currency of the entity. It ensures that the financial statements accurately represent the economic environment in which the entity operates.

- **Translation**: Converts financial statements from the functional currency to the reporting currency for consolidation or presentation purposes.

### *4.2. Exchange Rates Used:*
- **Remeasurement**: Uses historical exchange rates for non-monetary items and current exchange rates for monetary items.
- **Translation**: Applies the current exchange rate for assets and liabilities, while using historical rates for equity items and average rates for income statement items.

### *4.3. Impact on Financial Statements:*
- **Remeasurement**: Results in remeasurement gains or losses that are recognized in the income statement.
- **Translation**: Leads to translation adjustments that are recorded in other comprehensive income (OCI).

### *4.4. Functional Currency:*
- **Remeasurement**: Necessary when the local currency is not the functional currency.
- **Translation**: Required when the financial statements need to be presented in a currency different from the functional currency.

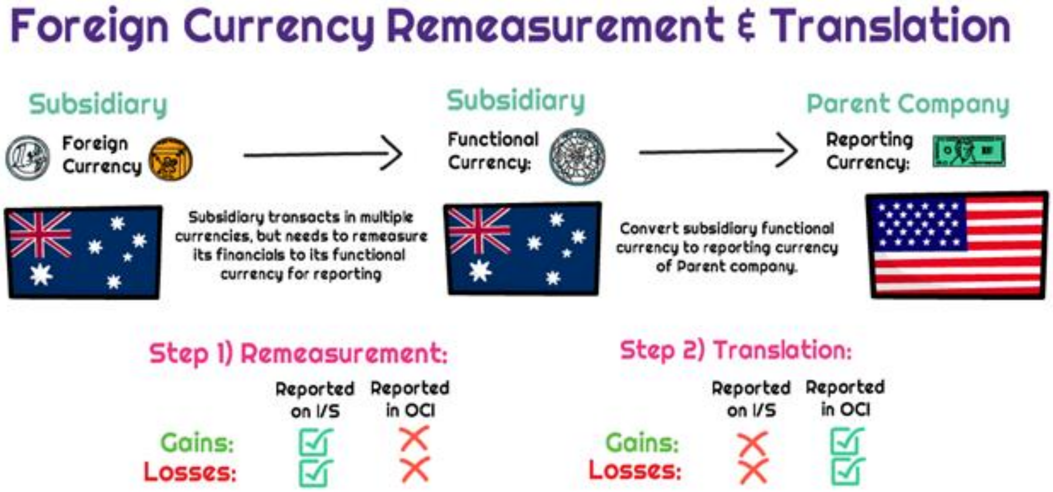


**Fig 2: Purpose and Treatment of Remeasurement and Translation [5]**

## 5. Conclusion
Foreign currency measurement and foreign currency translation serve distinct but complementary roles in ensuring that financial statements faithfully represent the economic realities of cross-border operations. Measurement determines how individual foreign-currency-denominated transactions are initially recognized and subsequently remeasured at appropriate exchange rates, directly affecting income through realized and unrealized gains or losses. Translation, by contrast, focuses on converting the financial statements of foreign operations into the reporting currency, preserving the economic context of those operations while mitigating inappropriate volatility in consolidated results. Understanding the boundary between measurement and translation is essential for achieving accuracy, consistency, and compliance with accounting standards. Organizations that apply these concepts rigorously benefit from clearer insight into operational performance, improved comparability across reporting periods, and enhanced transparency for stakeholders assessing currency exposure and global financial health. As global business activity expands and exchange-rate environments evolve, robust policies and controls around foreign currency measurement and translation remain a critical component of high-quality financial reporting.

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