SAP FOREIGN CURRENCY REVALUATION

FAS 52 and GAAP Requirements

SUSANNE FINKE

WILEY

John Wiley & Sons, Inc.

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To my husband, Kelly, who has always supported and encouraged me through the long hours I've kept on projects and many missed weekends; to my parents, Harry and Grace, who always told me I could do whatever I set my mind to.

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PREFACE

This book was written for those in the finance areas of organizations who are responsible for foreign currency revaluation, as well as SAP functional consultants. This book was primarily written for SAP implementations, but the general accounting principles and calculations on currency revaluation are covered in this book and would be beneficial to anyone with or without SAP with foreign currency transactions. The book is divided into three primary sections: statutory requirements, business execution of currency revaluation in SAP, and the configuration of SAP currency revaluation.

Chapter 1 covers the U.S. Accounting statutory requirements, net income, organizational, and financial consolidation impacts. This chapter discusses the Statement of Financial Accounting Standards No. 52 (FAS 52) in high level and provides the link to the official accounting document.

Chapter 2 is an overview of currency revaluation. This chapter briefly discusses stock transfer and tax implications and gives high-level overview examples and a discussion on currency revaluation.

Chapter 3 covers the General Ledger (G/L) Master Data Indicator Impacts. The setup of these G/L indicators, which are usually driven by the business analysts in the finance department, do not normally have corporate standards defined regarding the usage and impact of these settings. This chapter is intended to help define corporate standards for these indicators and explain the impact of these settings on currency revaluation.

Chapter 4 is one of three methods available to run currency revaluation. Currency revaluation without using valuation areas is the way most companies execute revaluation because this was originally the only method available to run revaluation by SAP. This method allows for the posting of revaluation cumulatively, where revaluation and exchange rate difference is calculated each month on the original posting amount, and the same amount is posted to reverse on the first day of the next month. This method also allows for the posting of revaluation incrementally, where revaluation is not reversed each month, and only the incremental difference is posted each month.

Chapter 5 covers one of the newer ways the SAP R/3 software provides to execute currency revaluation. This method requires specific unique configuration that is also covered in this chapter.

Chapter 6 covers a variation of the first and second valuation methods. It uses only one valuation area to execute and is much simpler to implement. This is the preferred method of implementation that most companies are moving toward. This section also requires minimal unique configuration that is covered in this chapter.

Chapter 7 is the "common" configuration to all currency revaluation. Anything specific to a valuation method is covered in the respective chapter. This chapter is placed toward the end of this book, because it is highly technical.

Chapter 8 shows how custom variants can be set up to view the critical fields used in the currency revaluation. The default display for the posting tab used after currency revaluation is complex and includes many unnecessary fields. This view provides a one-page display of the proposed or final postings.

In addition, the Appendix provides some of the commonly used transaction codes (T-Codes) in SAP R/3. The References provide the SAP OSS notes that are noted throughout the book. Finally, the Glossary provides definitions of terms used in the book to provide a common platform for discussion.

Throughout the book, certain important facts appear in grey shaded boxes. These facts are key to assumptions or facts in currency valuation, and special note should be taken if one of these boxes is presented. An example of this is:

> Open Item managed G/L accounts cannot be archived unless they are managed properly and cleared accordingly.

Suggestions for the next version of this SAP book or new topics for SAP books will be received at *info@thesapconnection.com.*

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SAP FOREIGN CURRENCY REVALUATION

1

U.S. ACCOUNTING REQUIREMENTS

HIGHLIGHTS

- FASB 52 Requirements Overview
- FASB 52 Currency Exchange Rates
- FASB 52 Currency Translation
- Organizational Impacts

FASB 52: REQUIREMENTS OVERVIEW

The Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards 52 (FASB 52), *Foreign Currency Translation*, defines the U.S. generally accepted accounting principles (GAAP) requirements for foreign currency revaluation. The complete Statement can be found on the FASB website *http://www.fasb.org*.

U.S. GAAP requires that Financial Statements be reported in the Functional or Local Currency of each reporting entity. If the Transaction Currency (currency in which the transaction takes place) is not the same as the Local Currency, then the Transaction Currency must be revaluated into the Local Currency using the exchange rate on the key date specified during valuation. The difference between the original posting value and the revaluated amount value results in a financial gain or loss posting on the Financial Statement.

It is important to note that the legal definition of the Country Currency should be represented in SAP as the Local Currency. FASB 52 helps define the legal Local Currency.

When a transaction posting occurs in a currency other than the Local Currency, both the Transaction Currency and the Local Currency get posted on the line item posting in SAP. If a Group Currency (a common reporting currency) is defined, then the Group Currency will be posted along with the Transaction Currency and the Local Currency. The exchange rate used to convert the currencies is that which is in the currency exchange rate table for the postings translation date. This translation date is normally the posting date, but another date may be specified. Assuming these currencies are revaluated on a date different from the translation or posting date, a Gain or Loss (depending on whether the exchange rate goes up or down) will occur and be posted.

FASB 52 requires that revaluation occur on all foreign currency items that are part of an asset or liability period-end balance. Every foreign currency open item is revaluated individually, and the total currency adjustment Gain or Loss is normally posted to a Financial Statement Profit and Loss (P&L) Adjustment Account. In SAP, the account that is being valuated retains its original balance. The balance sheet currency valuation adjustment is posted to a balance sheet account associated with the original account. The original asset or liability account and the balance sheet adjustment account (with the currency adjustment posting) are reported in one item on the Financial Statement. The Gain/Loss posting is reported in Net Income for that period in the Financial Statement unless the transaction hedges a foreign currency commitment or net investment in a foreign entity. In this case, the Gain/Loss is reported in the Cumulative Translation Adjustment (CTA) account in the equity section of the Financial Statement.

FASB 52: CURRENCY EXCHANGE RATES

Paragraph 12 of the FASB 52 (December 1981) states:

> All elements of financial statements shall be translated by using a current exchange rate. For assets and liabilities, the exchange rate at the balance sheet date shall be used. For revenues, expenses, gains, and losses, the exchange rate at the dates on which those elements are recognized shall be used. Because translation at the exchange rates at the dates the numerous revenues, expenses, gains, and losses are recognized is generally impractical, an appropriately weighted average exchange rate for the period may be used to translate those elements.

Paragraph 27a of FASB 52 (December 1981) states:

> Foreign Currency Transactions—The applicable rate at which a particular transaction could be settled at the transaction date shall be used to translate and record the transaction. At a subsequent balance sheet date, the current rate is that rate at which the related receivable or payable could be settled at that date.

The interpretation of this requirement that some companies use is the following:

> In order to be in FASB 52 compliance, balance sheet accounts with foreign currency postings (e.g., open payables/receivables) must be revaluated to the Local Currency using the exchange rate in affect as of the balance sheet date. Revaluation is normally run on a period-end basis as part of month-end close using at a minimum an average exchange rate method (spot rates are the preferred method).
>
> P&L Accounts in a foreign currency, represented by revenues, expenses, Gains/Losses will use the spot exchange rate on the date those postings were recognized. If a spot rate is not available the average rate could be used.

If at all possible, use the spot rate when calculating the balance sheet and P&L account currency revaluation (Gain/Loss postings and currency translation from Functional Currency to Group Currency). Adjustments posted to CTA should be recorded similarly. SAP has many transaction codes that allow for updating the foreign currency exchange rates; OC41 is one of them.

The assumption is made throughout the book that the exchange rate varies from day to day (which it normally does). If, however, it does not fluctuate from the original posting date to the date in which Currency Revaluation is run, there will not be a currency revaluation posting difference.

Because realized exchange rate fluctuations can occur daily, exchange rates should be maintained or updated daily either manually or by an interface such as Bloomberg. It is highly recommended that the exchange rate updates be automated.