

## Research on foreign currency business and financial statement conversion

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### Abstract

With the rapid development of China's economy, enterprises are increasingly trading with other countries and regions, which makes the foreign currency business and financial statement conversion problems increasingly prominent. With the in-depth study of the foreign currency translation problem, its related theory has been continuously developed and improved. The article uses the methods of induction, comparison and other methods to describe the international processing of foreign currency transactions, the translation of foreign currency statements, and the current national accounting and accounting recommendations. However, foreign currency translation is a very practical and practical work, and the problems involved are more complicated. In the future, more in-depth research should be carried out on the basis of a large amount of practical experience.

### Keywords

Foreign currency transaction international processing comparison, foreign currency statement conversion, international comparison, exchange gains and losses.

## 1. Comparison of international processing of foreign currency transactions

### 1.1 Comparison of terms

Terms related to China's new foreign currency translation accounting standards. The relevant terms used in the new foreign currency translation accounting standards are: foreign currency transactions, bookkeeping base currency, overseas operations, monetary items, non-monetary items, and spot exchange rates as far as their definitions are concerned.

International terminology guidelines on foreign currency translation terms. The terms involved are: foreign operations, foreign entities, reporting currency, foreign currency, exchange rate, exchange difference, spot exchange rate, ending exchange rate, net investment in foreign entities, monetary items, non-monetary items, fair value, etc. It can be seen that China's new foreign currency accounting standards and international accounting standards are basically unified in terminology. In addition to the differences on individual names. For example, the bookkeeping base currency is called the reporting currency in the same accounting standard. At the same time, the classification of terms in international accounting standards is more detailed, such as foreign operations, foreign entities, and net investment in foreign entities. The accounting treatment of foreign currency translation is regulated by the definition and regulation of these entities.

### 1.2 Comparison of basic methods for foreign currency business processing

The basic method of foreign currency business processing is mainly based on the international use of single and two transaction views on foreign currency business accounting.

Example 1:1 On February 2nd, a batch of products were sold to overseas companies at a price of 50,000 1 14 dollars. The parties agree to settle in US dollars on the day of the month. The spot exchange rate on the day of the issue of the goods is USD = 6.13 1 12 31. The spot exchange rate on the field is USD = 6.14 1 1 14 and the current month is RMB. The exchange rate is 1 US dollar = 6.12 yuan.

When adopting a single transaction concept, the final revenue of the main business is confirmed to be RMB 306,000, which is the amount of RMB converted according to the US dollar exchange rate on the date of receipt of the payment. The difference formed by exchange rate changes is included in the income from the main business, which is essentially the cash basis. The recognition of the main business income under the two 306,500 yuan transaction is based on the exchange rate of the commodity date. The dollar is converted into the amount of RMB. The difference formed by exchange rate changes is included in the financial expenses, which actually reflects the accrual system and is also in line with the requirements of the accounting system for the confirmation, accounting and reporting of the enterprise based on the accrual basis. The single transaction concept is not only troublesome, but also makes the accounting treatment more complicated because of the difficulty of adjusting the adjustment period. It is also not conducive to the summary calculation of exchange gains and losses, and cannot clearly reflect the loss or income brought by the exchange rate changes. China requires the use of two trading views for foreign currency transactions to be accounted for, and the resulting exchange gains and losses are recognized in the current period.

The focus of these two methods is how to deal with exchange differences caused by exchange rate changes, how to affect the current profit and loss and thus affect other accounting matters. Each country's handling of exchange differences is not the same. The US Financial Accounting Standards Board affirms two trading views and tends to make unrealized exchange gains and losses in the accounting period. It is included in the current profit and loss, including short-term currency projects and long-term monetary projects.

## **2. Foreign currency statement conversion research**

### **2.1 The meaning of foreign currency statement conversion**

The meaning of foreign currency statement translation The foreign currency statement translation is a company engaged in international business activities, using its accounting currency to restate the accounting procedures and methods of assets, liabilities, income and expenses in foreign currency.

For multinational companies, the accounting statements of their subsidiaries and branches distributed in different countries and regions should be regularly combined to comprehensively reflect the overall financial status and operating results of a group. Since the foreign subsidiaries usually use the local currency of the host country to prepare the accounting statements, the reporting currency is different from the parent company's reporting currency, so before the consolidated statements. It is necessary to first convert the accounting statements of subsidiaries expressed in foreign currencies as an indispensable step in the accounting treatment of companies engaged in international operations.

### **2.2 Comparative analysis of four accounting statement conversion methods**

My current exchange rate law As early as 1967, some British multinational companies used the current exchange rate method to convert foreign currency statements. The current exchange rate law assumes that all assets and liabilities are subject to changes in current exchange rates, so all assets and liabilities Projects can be converted at the current exchange rate on the date of compilation.

One of the advantages of the current exchange rate law is that it maintains the original financial status and financial ratio relationship reflected in the separate statements of foreign subsidiaries in the consolidated statements, which facilitates financial analysis of subsidiaries. Moreover, it is simple and straightforward and easy to operate. The current exchange rate law is adopted from it. Many people in the accounting profession have criticized. First, this approach assumes that all assets and liabilities are exposed to exchange rate risk, which is clearly inconsistent with the facts: Second, the current exchange rate law attempts to measure the assets and liabilities of subsidiaries according to local patterns, and thus conceptually The purpose of the preparation of the consolidated financial statements is contrary: Finally, under the current exchange rate law, the inventory measured at historical cost, fixed assets, etc. are also converted at the current exchange rate on the date of the compilation, so that the converted result is neither the current replacement cost. Nor is it the current market price and therefore lacks economic significance.

Liquidity and illiquidity project method. The American Institute of Certified Public Accountants recommended the use of liquidity and illiquidity project methods in the 1930s. Using this conversion method, assets and liabilities on the balance sheet should be classified into two categories: liquidity and illiquidity. According to its flow and non-flow properties, different exchange rates are used for conversion.

People have a deeper understanding of the shortcomings of liquidity and Philippine liquidity project law. They believe that current exchange rate conversion is adopted for liquidity projects, historical exchange rate conversion for non-liquidity projects, and insufficient theoretical support; for inventory and cash, accounts receivable The current exchange rate is used together, which means that the inventory and cash, accounts receivable items are subject to exchange rate risk, but this does not reflect the actual situation of the inventory. This method is a method of gradual elimination. Currently only a few countries still Use this method.

The tense method of the tense method was first proposed by the American accountant Lorenson in 1972 and the Financial Accounting Standards Announcement No. 8 issued by the US Financial Accounting Standards Board in 1975. The tense method considers the process of foreign currency statement translation. Is the money expressed in foreign currency. In the process of re-statement of the transaction statement into another monetary unit, only the unit of measurement should be changed, and the measurement attribute should not be changed, so in order to maintain the assets, the liability item. The measurement basis needs to be calculated for each asset and liability item at the exchange rate of the date to which it is measured.

The advantage of the tense method is that it is consistent with the purpose of the preparation of the consolidated accounting statements, however. The tense method is scientific in theory, and it has also been criticized by people. One of the criticisms is that the method will change the original financial ratio of the subsidiary; another major objection is that the adoption of the tense law may bring to multinational companies. Some negative effects: Under the floating exchange rate system, the use of tense law will make the reporting profit and loss of multinational companies more variable than those of companies that only engage in domestic business activities, thus affecting the price of listed stocks of multinational companies. Therefore, as long as the current historical cost The accounting model does not change, and the "bad" economic consequences of the tense approach may give. Its theoretical perfection casts a shadow.

Under the current floating exchange rate system, the formulation of foreign currency statement conversion standards is still in its infancy in China. From the current situation of the operation of foreign subsidiaries in China's multinational group, the foreign exchange statement is converted using the current exchange rate method. To be reasonable, choosing the tense method to convert foreign currency statements is a realistic choice for China.

First of all, China is a developing country. The emergence of multinational corporations is not long. It is difficult to compare with the United States and the United States, both in terms of quantity and scale. Moreover, most of the business units of Chinese enterprises in foreign countries do not cross their own industries. Their operating funds depend on the financing and provision of the parent company. Once the exchange rate changes, it will directly affect the parent company's business activities and cash flow. Such foreign subsidiaries should adopt the tense method from the perspective of business characteristics.

Secondly, from the characteristics of the current exchange rate law and the tense law, the current exchange rate method is to multiply all assets and liabilities by a constant, so the current exchange rate law can maintain the proportional relationship of various items in the original foreign currency statement. However, the current exchange rate law assumes that all foreign currency assets and liabilities are subject to exchange rate fluctuations. Since the value of inventory and fixed assets is basically independent of exchange rate fluctuations, this assumption is rarely established.

Finally, as the current cost measurement model replaces the historical cost measurement model, all items measured at current cost are translated at the current exchange rate, and the tense method is

combined with the current exchange rate law. At present, China's accounting standards have set new standards for non-monetary assets such as inventories, fixed assets and intangible assets. At the end of the period, the inventories are depreciated by the method of lowering the cost and the market price. The market price is close to the value of the current cost, so with the Further perfection, the negative impact of the tense method will be further reduced.

### **3. Current national conditions and suggestions for accounting conversion in China**

#### **3.1 National conditions**

China's multinational corporations are dominated by public ownership. Therefore, some people think that China should use the parent company theory as the main basis to provide accounting information that helps to control the multinational companies' investment direction and investment scale. Income and status in multinational companies.

China's RMB exchange rate system is currently implemented with a managed floating exchange rate system. The state has a strong regulatory effect on the exchange rate, and the RMB exchange rate will not fluctuate drastically. This can avoid the company's reporting of profit and loss due to the exchange rate law. Defects that are affected by changes.

China's current capital shortage, in the long period of time in the future, multinational companies are difficult to compare with developed countries such as Britain and the United States in terms of quantity and scale. Moreover, the foreign subsidiaries are mostly the organic components of the parent company outside the country. From this point of view, China cannot directly set it. Use the practice of developed countries such as the United Kingdom and the United States.

Coordinate with other accounting standards and concepts in China. The direct correlation with foreign currency translation is mainly the measurement attribute and the consolidated statement. Under the historical cost measurement attribute, the tense method is more reasonable. If the consolidated statement is the parent company theory, then the foreign currency statement translation should also adopt the parent company theory, and the foreign currency statement conversion should also adopt the tense method under the parent company's point of view.

#### **3.2 Suggestions on Improving the Application Level of Foreign Currency Translation Accounting Standards**

Gradually replenish and improve the guidelines, further realize the international convergence of international convergence accounting standards is the trend of the times, is the performance of accounting with the times, China should strive to achieve the internationalization of accounting standards, currently in foreign currency.

In terms of the calculation criteria, in conjunction with the actual situation of China's current multinational corporations and overseas operations, the relevant state departments should further refine the operational norms and gradually expand the conversion standards. The scope of application. Applying the spirit of the international foreign currency guidelines to the actual work of our country. In addition, we must actively participate in the development of international standards to expand international influence and enhance the right to speak in international norms. To lay the foundation for further enhancing the international competitiveness of Chinese enterprises.

Enterprises should profoundly understand the spirit of the guidelines and choose the correct treatment. The implementation of foreign currency translation standards has not been long. With the development of the economy and the increasing number of multinational enterprises, new problems in the application of standards have emerged. Relevant enterprises should correctly select the processing method suitable for their own enterprise development under the standard of the conversion criteria. For the accounting treatment of foreign currency transactions, the foreign currency transactions can be based on the frequency of transactions in the foreign trade process and the amount of foreign currency involved. Choose between account system and foreign currency accounting system, choose to be in line with the enterprise

The accounting standard currency, which is specifically set to calculate the exchange difference of the current profit and loss, and disclose the relevant information and the accounting methods and methods of the company's characteristics in the accounting statements.

Improve the overall quality of accountants and improve the application level of the foreign currency. Although the content of the regulations is relatively simple, the subject knowledge involved in the application is more extensive. Relevant accounting personnel must not only possess professional accounting knowledge, but also master relevant content such as international trade, international finance, law, and risk management. With the frequent international exchanges, international trade frictions, inflation and other macroeconomic impacts, the work of relevant accounting personnel has been challenged. Accounting personnel should fully grasp the contents of our foreign currency translation guidelines, and follow the development and changes of international standards, extensively engage in trade and financial knowledge, continuously improve the overall quality, and enhance Las Vegas in a complex and ever-changing international environment. Gass adaptability and continuously improve the application level of foreign currency translation guidelines.

In short, the formulation of scientific and reasonable translation criteria is of great significance for attracting foreign investment, encouraging more enterprises to participate in international competition, and enhancing the international competitiveness of Chinese enterprises. There is a certain gap between China's foreign currency translation standards and international foreign currency translation standards. China must constantly correct and improve the content of the guidelines, and strive to improve the application level of foreign currency translation standards.

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