

# **COOPERATIVE ACCOUNTING AND AUDITING**

## **Level-II**

**Based on January 2022, Version Occupational  
standard**



**Module Title: - Performing Foreign Currency  
Transactions**

**LG Code: AGR CAA2 M07LO (1-4) LG (23-26)**

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## Table of Contents

<b>Introduction to the Module .....</b>	<b>1</b>
<b>LO #1- Identify nature of customer's foreign currency needs.....</b>	<b>2</b>
Instruction sheet .....	2
Information Sheet 1 .....	3
Self-check 1 .....	8
<b>LO #2- Verify that the proposed transaction can be conducted .....</b>	<b>10</b>
Instruction sheet .....	10
Information Sheet 2 .....	11
Self-Check – 2 .....	18
<b>LO #3- Conduct the transaction .....</b>	<b>20</b>
Instruction sheet .....	20
Information Sheet 3 .....	21
Self-Check – 3 .....	30
Operation Sheet-1 .....	32
LAP TEST-1 .....	35
<b>LO #4- Maintain accurate records of transaction .....</b>	<b>36</b>
Instruction sheet .....	36
Information Sheet 4 .....	37
Self-Check – 4 .....	40
Reference Materials.....	42

## Introduction to the Module

Dear learner this module covers the performance outcomes, skills and knowledge required to provide handle foreign currency transactions including buying and selling foreign currency travelers cheques, notes and coins within a retail banking environment.

Therefore, the objective of Performing Foreign Currency Transactions module is to provide you with useful information and tools to Perform Foreign Currency Transactions. By the end of this module, you will have knowledge and skill to identify of customer's foreign currency needs, conduct foreign currency transaction and maintain accurate record of foreign currency transaction.

## LG #23

## LO #1-Identify nature of customer's foreign currency needs

### Instruction sheet

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Nature of Foreign currency transactions
- Verifying relevant personal information
- Handling customer requests for foreign currency

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Clarify the nature of the foreign currency transaction with the customer
- Obtain relevant information from the customer including verifying the identity of the person presenting notes for sale or wishing to purchase foreign currency according to organizational policy and procedures
- Handle Customer requests for foreign currency dealings in accordance within the officer's authority to approve transactions

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks

## Information Sheet 1

### 1.1. Nature of Foreign currency transactions

#### 1.1.1. Definition of foreign currency

**Foreign currency** is the currency used by a foreign country as its recognized form of monetary exchange. This is particular currency is the only form of exchange that the applicable government allows to be used for buying and selling within its borders.

According to Ethiopian Directive No- FXD/77/2021, **Foreign Currency**" means any currency other than Ethiopian currency which is legal tender in any country outside Ethiopia as to which the national Bank of Ethiopia has declared to be acceptable for payments in Ethiopia and accepts for purposes of foreign exchange.



**Figure1.1 Example of foreign Currency**



### 1.1.2. Definition of Foreign currency transaction

**Foreign currency transactions** are economic activities denominated in a currency other than the entity's recording currency. These transactions include the following:

- Purchases or sales of goods or services (imports or exports), the prices of which are stated in a foreign currency.
- Loans payable or receivable in a foreign currency.
- Purchase or sale of foreign currency forward exchange contracts.
- Purchase or sale of foreign currency units

**Foreign currency transaction** refers to the transactions denominated in a currency other than the local (domestic) currency of the country in which the banking office is located.

#### **Domestic Foreign currency transactions include:**

- Conversion of Ethiopian birr to another currency
- Foreign notes and coins
- International drafts
- Overseas bank cheques
- Telegraphic transfers
- Traveler's cheques

### 1.1.3. Nature of foreign currency transactions

- Individual investors who are considering participating in the foreign currency exchange (or "forex") market need to understand fully the market and its unique characteristics.
- Forex trading can be very risky and is not appropriate for all investors.
- It is common in most forex trading strategies to employ leverage. Leverage entails using a relatively small amount of capital to buy currency worth many times the value of that capital. Leverage magnifies minor fluctuations in currency markets in order to increase potential gains and losses. By using leverage to trade forex, you risk losing all of your initial capital and may lose even more money than the amount of your initial capital.

- You should carefully consider your own financial situation, consult a financial adviser knowledgeable in forex trading, and investigate any firms offering to trade forex for you before making any investment decisions.

## **1.2. Obtaining relevant customer information**

**The customer of foreign currency transaction includes:**

- A customer of another financial institution
- A new customer
- A resident or non-resident of Ethiopia
- An existing customer

**Relevant customer information to be collected includes:**

- Bank account details
- Name, address and contact details
- Source of funds to cover transaction

## **1.3. Handling customer requests for foreign currency dealings**

According to Article 6 of Directives No FXD/46/2017) of Ethiopia handling customer requests for foreign currency dealings can be done as follows:

- Importers are, first, required to register an application for foreign exchange allocation within the commercial banks.
- In the allocation of foreign currency a bank shall give priority to the following import items: fuel, motor oil, lubricants and gas, agricultural inputs and machineries, pharmaceutical product and payments, etc. among them, on a first come first served basis.
- Despite the above, priorities a bank must sell foreign currency to its all other customer's on the basis of first come first served bases. However the importer has to lodge a request for foreign currency only in one bank. Importers are prohibited to

submit application for foreign currency in more than one bank. Further, the importer must adhere to any provisions of proclamation, regulation and directives. Any importer who fails to comply will be black listed from six month up to two years.

- Forex request for all transactions set under the operation of forex bureau directives no. FXD/17/2001;
- other payments authorized by the NBE especially external debt payment obligations and supplier's credit; and

<b>Self-check 1</b>	<b>Written test</b>
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Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Choose the best answer (5point)**

- 1) Which one of the following is the currency used by a foreign country as its recognized form of monetary exchange?
  - A. Exchange rate
  - B. Foreign Currency.
  - C. Foreign currency transaction
  - D. Fixed Exchange rate.
- 2) Which one of the following refers to the transactions denominated in a currency other than the local (domestic) currency of the country in which the banking office is located?
  - A. Exchange rate
  - B. Foreign Currency.
  - C. Foreign currency transaction
  - D. Fixed Exchange rate.
- 3) Which one of the following is/are included in foreign currency transaction wrongly matched?
  - A. Conversion of Ethiopian birr to another currency
  - B. Foreign notes and coins
  - C. International drafts and Telegraphic transfers
  - D. Overseas bank cheques and Traveller's cheques
  - E. All of the above.
- 4) Which one of the following is the nature of foreign currency transactions?
  - A. Individual investors who are considering participating in the foreign currency exchange (or "forex") market need to understand fully the market and its unique characteristics.
  - B. Forex trading can be very risky and is not appropriate for all investors.
  - C. It is common in most forex trading strategies to employ leverage.
  - D. All of the above.
  - E. None of the Above.
- 5) Which of the following is/are the customer of foreign currency transaction?
  - A. A customer of another financial institution
  - B. A new customer and An existing customer

- C. A resident or non-resident of Ethiopia
- D. All of the above
- E. None of the above

**Test II: Short Answer Questions (16 point)**

- 1) Define foreign currency according to Ethiopian Directive No- FXD/77/2021.

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- 2) What does foreign currency transaction mean?

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- 3) Write the relevant customer information to be collected in foreign currency transaction.

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- 4) Discuss how to handling customer requests for foreign currency dealings

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**Note: Satisfactory rating - 10 points and above, but Unsatisfactory if you score - below 10 points. You can ask your teacher for the copy of the correct answers.**

**LG #24**

**LO #2- Verify that the proposed transaction  
can be conducted**

### Instruction sheet

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Concepts of foreign exchange
- Identifying cleared fund
- Assessing request for foreign currency notes
- Verifying Foreign currency notes for sale

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Identify cleared funds as available for requests to purchase foreign currency
- Assess requests for foreign currency notes against current stock of currencies held with currencies not held on site ordered and the customer advised when they will be available
- Verify foreign currency notes presented for sale for authenticity according to organizational procedures

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks

## Information Sheet 2

### 2.1. Concepts of foreign exchange and Forex market

#### 2.1.1. Concepts of foreign exchange

##### Definition of foreign exchange

**According to Ethiopian Directive No- FXD/77/2021 "Foreign exchange"** means any foreign currency, cheques, bill of exchange, promissory notes, drafts, securities and other negotiable or non-negotiable instruments expressed in foreign monetary units as well as bank balances held abroad or assets in the form of foreign accounting, crediting or set-off arrangements, whether expressed or payable in foreign currencies or in Birr provided it is acceptable to the national Bank.

**Foreign exchange, also termed Forex,** refers to converting one country's currency into another country's currency. A single country's currency is valued against another's currency or against a basket of currencies.

Foreign Exchange (forex or FX) is the trading of one currency for another. For example, one can swap the U.S. dollar for the euro.



**Figure2.1 Foreign exchange**

## 2.1.2. Concept of Foreign Exchange Market

### 2.1.2.1. Meaning of Foreign Exchange Market

**The foreign exchange market** is a floor provided for buying, selling, exchanging, and speculation of currencies. The forex market also undertakes currency conversion for investments and international trade. The Forex markets, also termed, Forex markets, consist of investment management firms, central banks, commercial companies, retail forex brokers, and investors.

In understanding the forex market, we will gain an insight into the forex transactions that take place in these markets.

The market determines the value, also known as an exchange rate, of the majority of currencies. Foreign exchange can be as simple as changing one currency for another at a local bank. It can also involve trading currency on the foreign exchange market. For example, a trader is betting a central bank will ease or tighten monetary policy and that one currency will strengthen versus the other.

Foreign exchange transactions can take place on the foreign exchange market, also known as the forex market. The forex market is the largest, most liquid market in the world, with trillions of dollars changing hands every day. There is no centralized location. Rather, the forex market is an electronic network of banks, brokers, institutions, and individual traders (mostly trading through brokers or banks).

### 2.1.2.2. Differences in the Forex Markets

There are some fundamental differences between foreign exchange and other markets.

- First of all, there are fewer rules, which mean investors aren't held to as strict standards or regulations as those in the stock, futures, or options markets. That means there are no clearing houses and no central bodies that oversee the forex market.
- Second, since trades don't take place on a traditional exchange, you won't find the same fees or commissions that you would on another market.

- Next, there's no cutoff as to when you can and cannot trade. Because the market is open 24 hours a day, you can trade at any time of day.
- Finally, because it's such a liquid market, you can get in and out whenever you want and you can buy as much currency as you can afford.

### 2.1.3. Concept of Foreign exchange Transaction

#### 2.1.3.1. Meaning of Foreign Exchange Transactions

According to Ethiopian directive no. 77 /2021, “Transaction in foreign exchange “means:

- a) The transfer, borrowing, lending, assignment, exchange, purchase, sale, receipt, payments, or crediting of foreign exchange; and
- b) The conclusion of any contract, agreement, arrangement or understanding, as a result of which any foreign exchange is transferred, borrowed, lent, assigned, exchanged, purchased, sold, received, paid or credited within or outside Ethiopia.

**Forex transaction** refers to the purchase and sale of foreign currencies. The transactions are done with an exchange of a specific country's currency for another at an agreed exchange rate on a specific date.

Forex transactions include all conversions of currencies that may be done by a traveler on an airport kiosk or billion-dollar payments made by financial institutions and governments. The growth in globalization has led to a massive increase in the number of foreign exchange transactions in recent years.

### 2.1.3.2.Types of Foreign Exchange Transactions

The following are the types of forex transactions:

**Definition:** Foreign exchange, also termed as Forex refers to the conversion of one country's currency into another country's currency. A single country's currency is valued against another's currency or against a basket of currencies.



Figure 2.2 Type of foreign Exchange Transaction

#### A. Spot Transactions

This method of transaction is the fastest way to exchange currencies. Spot transaction refers to the exchange or settlement of the currencies by the buyer and seller within two days of the deal without a signed contract. The Spot Exchange Rate is the prevailing exchange rate in the market.

#### B. Forward Transactions

**Forward transactions** are future transactions when the buyer and seller enter into an agreement of purchase and sale of currency after 90 days. The agreement is framed on the basis of a fixed exchange rate for a definite date in the future. The rate at which the deal is fixed **is termed as** Forward Exchange Rate.

#### C. Future Transaction

**Future transactions** also deal with contracts in the same manner as forward transactions. However, in the case of future transactions, standardized contracts in terms of features, date, and size should be followed. At the same time, regular forward transactions have flexibility and can

be customized. In future transactions, an initial margin is fixed and kept as collateral in order to establish a future position.

#### **D. Swap Transactions**

Swap transactions are simultaneous lending and borrowing of two different currencies between two investors. One investor borrows a currency and repays it in the form of a second currency to the second investor. Swap transactions are done to pay off obligations without suffering a foreign exchange risk.

#### **E. Option Transactions**

The exchange of currency from one denomination to another at an agreed rate on a specific date is an option for an investor. Every investor owns the right to convert the currency but is not obligated to do so.

### **2.2. Identifying cleared fund**

#### **2.2.1. Concept of clearing Fund**

**Clearing** is all of the steps involved in transferring funds ownership from one party to another except for the final step, which is settlement. Settlement involves the finalization of a payment, so that a new party takes possession of transferred funds. The treasurer should be aware of these processes in order to understand the timing of payment transfers.

Clearing starts with financial institutions sending payment messages through the payment network; the payment network routes these messages and other related information for the participating financial institutions to correctly process payment instructions. In faster payment systems, these messages flow on a transaction-by-transaction basis, and by agreement among the participants, the clearing process enables faster payments to be credited to payees' accounts in near real time.

**Clearing** may also involve the validation of other payment details, including whether a given individual's identifying information, such as an account number, mobile number or email address, is associated with a participating financial institution. In addition, during clearing, the

participating financial institutions validate and take action on the payment messages they receive, including by rejecting or accepting the messages.

These actions will trigger obligations among the participating financial institutions, and between them and their customers. As an example, when a payee's financial institution accepts a payment order from the payer's financial institution, the payer's financial institution is obliged to pay the payee's financial institution for the amount of the transaction. In turn, the payee's financial institution is obliged to pay its payee customer. As between the two financial institutions and their respective customers, they will typically settle by debiting and crediting their respective customers' accounts they maintain. But the financial institutions involved in the transaction will also need to settle among themselves.

### 2.2.2. Cleared Fund

**A cleared fund refers** to Cash, Cheque from same institution and Cleared funds within a bank account held at same institution. **Cleared funds** are the cash balances in an account that are able to be immediately withdrawn or used in financial transaction. Until funds are considered to be cleared funds they are considered to be pending, and investors or customers will be unable to conduct transactions with them.

When cash or checks are deposited into an account, either as an account funding transaction or as the results of the sale of a security, it may take several business days until the financial institution is able to make all of the funds available for withdrawal or trading. A checks clears when funds are moved from the writer's bank to the bank of the person depositing the check that was written. If the check writer and depositor use the same bank, this can potentially happen on the same day.

### 2.3. Assessing request for foreign currency notes

Foreign currency notes are demanded by domestic households, firms, and governments who wish to purchase goods, services, or financial assets that are denominated in the currency of another economy.

Therefore Requests for foreign currency notes are assessed against current stock of currencies held with currencies not held on site ordered and the customer advised when they will be available.

#### **2.4. Verifying Foreign currency notes for sale**

**Verification** means proving the correctness. Verification is the act of assuring the correctness of value of foreign currency notes for sale, title and their existence in the organization. An auditor should be satisfied himself about the actual existence of assets and liabilities appearing in the balance sheet is correct.

While verifying foreign currency notes for sales, the assets, an auditor should consider the following points:

- Ensuring the existence of assets.
- Acquiring the assets for business.
- Ensuring the proper valuation of assets.
- Ensuring that the assets are free from any charge.

An Authorized Dealer (AD) is any person specifically authorized by the Bank to deal in foreign exchange or foreign securities and normally includes banks. The Foreign Exchange Dealers Association of Ethiopia is an association of commercial banks that specializes in the foreign exchange (forex) markets in Ethiopia.

Therefore foreign currency notes presented for sale are verified for authenticity according to organizational procedures and directive declared by An Authorized Dealer (AD) and The Foreign Exchange Dealers Association of Ethiopia.

<b>Self-Check – 2</b>	<b>Written test</b>
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Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Multiple choice (5points)**

**I. Choose the best answer and encircle it.**

- Which one of the following refers to converting one country's currency into another country's currency?
  - Foreign Exchange
  - Future transaction.
  - The foreign exchange market
  - Spot transaction
- Which one of the following is a floor provided for buying, selling, exchanging, and speculation of currencies?
  - Foreign Exchange
  - Future transaction.
  - The foreign exchange market
  - Spot transaction
- Which one of the following is the type foreign exchange transaction?
  - Spot transaction and Option transaction
  - Swap transaction and Future transaction
  - Forward transaction
  - All of the above.
  - None of the above
- Choose the true statement.
  - In future transactions, an initial margin is fixed and kept as collateral in order to establish a future position
  - The Spot Exchange Rate is the prevailing exchange rate in the market.
  - Swap transactions are done to pay off obligations without suffering a foreign exchange risk.
  - All of the above
  - none of the above.
- While verifying foreign currency notes for sales, the assets, an auditor should consider the following points:
  - Ensuring the existence of assets.
  - Ensuring the proper valuation of assets.
  - Ensuring that the assets are free from any charge.
  - Acquiring the assets for business.
  - all of the above
  - None of the above.

**Test II: Short Answer Questions (15 points)**

**II. Write your answer according to the given question.**

1. Define foreign exchange according to Ethiopian Directive No- FXD/77/2021.

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2. Discuss the type of foreign exchange transaction briefly.

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3. What is cleared fund?

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**Note: Satisfactory rating - 10 points and above, but Unsatisfactory if you score - below 10points. You can ask your teacher for the copy of the correct answers.**

## LG #25

## LO #3- Conduct the transaction

### Instruction sheet

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Obtaining Foreign currency Rates used
- Calculating foreign currency translation amounts
- Providing the copy of conversion rates
- Purchasing or selling travelers' checks
- Entering transaction into relevant database

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Calculate conversion of foreign currency amounts using the Organization's set procedures and tables or by accessing relevant databases
- The customer is provided with a copy of the rates used to calculate the currency conversion
- Witness the customer's signature where travellers' cheques are being purchased or sold, in accordance with policies and procedures
- Enter details of the transaction into the relevant database

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks
5. Perform the given operation sheet

## Information Sheet 3

### 3.1.Obtaining Foreign currency Rates used

To conduct foreign exchange transaction one of the major point is obtaining foreign currency rates used.

**The exchange rate** is defined as the rate based on which two countries are involved in trade exchange marketable items or commodities. It is the cost of exchanging one currency for another currency. **Exchange rate**” refers to how much of one currency you can trade for a different currency. For example, you could trade about 1 USD for 0.83 EUR. Or in other words, 1 EUR is equal to about 1.21 USD.

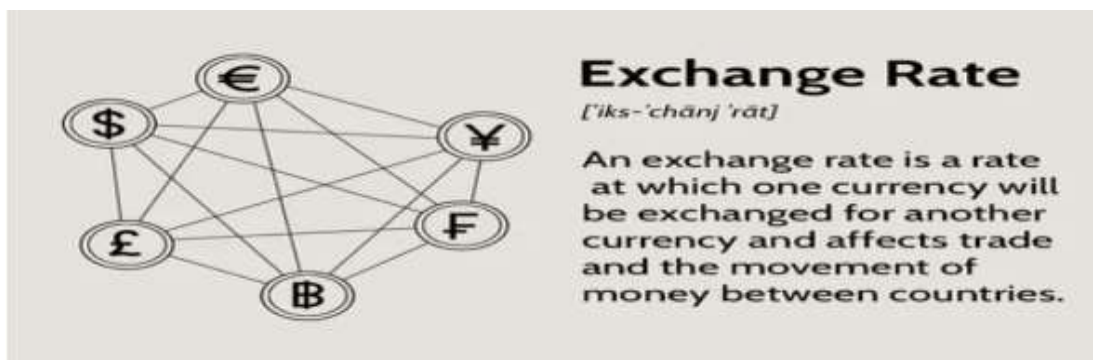


Figure3.1. Exchange rate indicator with symbol of different countries currency

#### 3.1.1. Kind of exchange rates

There are two different kinds of exchange rates to be aware of around the world: flexible and fixed exchange rates.

##### A. Flexible exchange rates

Flexible exchange rates, which are used by many developed countries, depend on a country's current supply and demand, and “self-correct” based on changes in the economy. With a flexible exchange rate, if the demand for a currency is low, its value will decrease. This makes imported goods more expensive and can stimulate the economy as consumers turn to local goods and

services, generating jobs that contribute to a market correction. Since this cycle happens often, a flexible exchange rate is always changing.

When a country has a flexible exchange rate, this also means that the government or central bank doesn't actively work to keep the exchange rate fixed or regulated. Instead, the forex market influences the exchange rate. For example, as of February 2021, the exchange rate was 1 USD to 0.83 EUR, but at the end of March 2020, it was about 1 USD to 0.91 EUR.

### **B. Fixed exchange rates**

Fixed exchange rates are set and maintained by a country's government, resulting in an official exchange rate. This set price is usually determined against a major international currency, like the US dollar.

For a fixed exchange rate to work, the central bank buys and sells currency on the forex market in return for the currency it's compared against. For example, if a country fixes their exchange rate equal to 2 USD, they then supply themselves with enough US dollars to supply the market with that exchange rate. These reserves are called foreign reserves and help regulate market fluctuations, inflation, and deflation, and as a result, the country's exchange rate.

As of February 2021, countries with a fixed exchange rate include Saudi Arabia, Belize, Cuba, Hong Kong, Panama, United Arab Emirates, and a few others.

### **3.1.2. Factors affecting exchange rates**

One of the most common questions about exchange rates is “why do exchange rates change so frequently?” This is because they depend on several factors, such as interest rates, money supply, and financial stability.

- a) **Interest rates:** Interest rates, inflation, and exchange rates are closely related because they directly influence each other. When financial institutions change the interest rate, this impacts currency values. Higher interest rates mean that lenders receive a higher return compared to other economies, which then motivates them to spend more money in that country. This leads to an influx in foreign capital, which causes the exchange rate to increase. Decreasing interest rates have the opposite effect. As interest rates go down, so do

exchange rates. In short, higher interest rates make a country's currency more valuable, which drives investors to exchange their local currency for the higher-paying one.

**b) Money supply:** Money supply, or how much cash a country has on hand, influences both inflation and exchange rates. This is the money that the country's central bank creates. If there is too much money in circulation, this causes inflation. This also means that the country's currency isn't worth as much because there is more of it. When that currency is exchanged internationally, it's not worth as much because there's an excess, resulting in a decreasing exchange rate. This is what economists mean when they talk about how "strong" a currency is.

**c) Financial stability:** The country's economic health plays a role in determining its exchange rate. If a country has a strong economy, people will buy its goods and services. This results in more international currency being injected into the local economy. On the flip side, things like financial instability or political turmoil can make international investors nervous and they may move their capital to more stable countries.

### 3.1.3. How to read an exchange rate

Currency conversion calculations are presented in pairs, which mean that one currency is quoted against the other. For example, a 1 USD/CAD exchange rate means that 1 USD is equal to about 1.26 CAD. Usually, exchange rates are presented as a number, like 1.26, as in the case of the USD/CAD example.

## 3.2. Calculating foreign currency translation amounts

If your business entity operates in other countries, you will be using different currencies in your business operations. However, when it comes to accounting, your financial statements have to be recorded in a single currency. This is why you need to perform foreign currency translation.

For example, if your company has its headquarters in the US but has operations in the UK, you must translate the British pound into US dollar.

### 3.2.1. Definition of Foreign currency translation

**Foreign currency translation** is the process of estimating the amount of money in one currency in the denomination of another currency. The process of currency translation makes it easier to read and analyze financial statements which would be impossible if they were to feature more than one currency.

### 3.2.2. Foreign Currency Translation Process

The three steps in the foreign currency translation process are as follows:

- A. Determine the functional currency of the foreign entity:** Businesses must determine a functional currency for reporting. The functional currency is the one which the company uses for the majority of its transactions. You can choose the currency of the country where your main headquarters are located or where your major operations are.
  
- B. Re-measure the financial statements of the foreign entity into the functional currency:** You need to ensure that all your financial statements use the reporting currency. The translation of financial statements into domestic currency begins with translating the income statement. According to the FASB ASC Topic 830, Foreign Currency Matters, all income transactions must be translated at the rate that existed when the transaction occurred. It is vital that you keep a close eye on the dates in which any of the above transactions occurred. Although most currency translation occurs at the financial year-end, the exchange rates are determined by the transaction date in some instances. Bank statements and income records help you to determine the right rates.
  
- C. Record gains and losses on the translation of currencies:** The gains and losses arising from foreign currency transactions that are recorded and translated at one rate and then result in transactions at a later date and different rate are recorded in the equity section of the balance sheet.

### 3.2.3. Foreign Currency Translation Methods

Since exchange rates are constantly fluctuating, it can cause difficulty while accounting for foreign currency translations. Instead of simply using the current exchange rate, businesses may look at different rates either for a specific period or specific date.

**A. Current rate Method:** Using this method of translation, most items of the financial statements are translated at the current exchange rate. The assets and liabilities of the business are translated at the current exchange rate. Since this can lead to volatility associated with changes in the exchange rate, gains and losses associated with this translation are reported on a reserve account instead of the consolidated net income account.

**B. Temporal Rate Method:** The temporal rate method, also known as the historical method, is applied to adjust income-generating assets on the balance sheet and related income statement items using historical exchange rates from transaction dates or from the date that the company last assessed the fair market value of the account.

**C. Monetary-Nonmonetary Translation Method:** The monetary-nonmonetary translation method is used when the foreign operations are highly integrated with the parent company. The method translates monetary items such as cash and accounts receivable using the current exchange rate and translates nonmonetary assets and liabilities including inventories and property using the historical exchange rate.

### 3.2.4. Foreign Currency Translation Adjustment

The foreign currency translation adjustment or the cumulative translation adjustment (CTA) compiles all the fluctuations caused by varying exchange rate.

Businesses with international operations must translate their transactions like the acquisition of assets or the purchase of services into their functional currency. With foreign exchange fluctuations, the value of these assets and liabilities are also subject to variations.

The gains and losses arising from this are compiled as an entry in the comprehensive income statement of a translated balance sheet. According to the FASB Summary of Statement No. 52, a

CTA entry is required to allow investors to differentiate between actual day-to-day operational gains and losses and those caused due to foreign currency translation.

There are different rules for translating items in financial statements including assets and liabilities, income statement items, cash flow statement items, etc. Considering its complexity, it may be best to consult an accountant regarding the rules of accounting for foreign currency translation.

### 3.2.5. Calculation of exchange rates

Exchange rates are determined by foreign exchange trading (forex trading). Forex trading is an international market for buying and selling currencies, and it's about 25 times larger than all the world's stock markets.

Forex trading includes small transactions, like when you travel internationally and trade your currency for the local currency. It also includes large transactions, like when a business secures an exchange rate for the future. Forex trading happens all day, every day, and that's why the exchange rate is always changing for most currencies. These trades impact exchange rates because there is more money circulating in different economies. Since about 88% of the world trade is in US dollars, most exchange rate calculations are compared to this currency.

**Currency conversion calculations** can be tricky at first, but it really only requires a simple calculation. Here is a step-by-step guide on how to calculate exchange rates:

- Know the country's exchange rate. You can find this information online or on different app.
- If you know the exchange rate, multiply money you have by exchange rate.

**You can calculate the exchange rate as per the below-mentioned relationship: –**

$\text{Money in After Exchange} = \text{Exchange Rate} \times \text{Money before Exchange}$
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**Additionally, it can also be determined as per the below-mentioned relationship: –**

$\text{Money in foreign Currency} = \text{Exchange Rate} \times \text{Money in domestic Currency}$
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Here, money after exchange corresponds to foreign currency, and the money before an exchange is regarded as domestic currency. The exchange rate is determined by making up pairs between different currencies. The financial institutions or the central banks of the respective nations help determine the currency pairs.

For example, suppose that the USD/EUR exchange rate is 0.631 and you'd like to convert 100 USD into EUR. To accomplish this, simply multiply the 100 by 0.631 and the result is the number of EUR that you will receive: 63.10 EUR. Converting EUR to USD involves reversing that process. Using the same example, if you took your 63.10 EUR and multiplied it by 0.631, you end up with the 100 USD you started with.

- If you don't know the exchange rate, divide your current currency by the exchange rate:

$$\text{Exchange rate} = \frac{\text{Money in foreign Currency}}{\text{Money in domestic Currency}} = \frac{\text{Money in After Exchange}}{\text{Money in Before Exchange}}$$

For example, if you exchange 100 USD for 80 EUR, the exchange rate would be 1.25. Or if you exchange 10472 ETB for 200 USD, the exchange rate would be 52.36.

### 3.3. Providing the copy of conversion rates

The customer is provided with a copy of the rates used to calculate the currency conversion because writing and providing good copy is a skill and using this technique to generate more conversions is something you need to practice.

Basically, it's copy that is usually data-driven, it's measurable and it compels people to take action when they've read it. Conversion copy needs to be good copy. Good copy should be everywhere, you need it running throughout your marketing strategy, but conversion copy is another level on top and needs to be used in specific circumstances, like email marketing and landing pages. Writing conversion copy is about creating concise, clear, actionable content. You need to make specific claims, make valuable claims and make believable claims, so that you can build up trust with your audience and present them with clear propositions.

### 3.4. Purchasing or selling travelers' checks

#### 3.4.1. Concepts of Traveler's checks

**Traveler's checks are a form** of payment issued by financial institutions. These paper cheques are generally used by people when traveling to foreign countries. They are purchased for set amounts and can be used to buy goods or services or be exchanged for cash. It offers a safe way to travel overseas without the risks associated with losing cash. The issuing party, usually a bank, provides security against lost or stolen checks.



**Figure 3.2 American express travelers check.**

#### 3.4.2. How Traveler's Checks Work

A traveler's check is for a prepaid fixed amount and operates like cash, so a purchaser can use it to buy goods or services when traveling. A customer can also exchange a traveler's check for cash. Major financial service institutions issue traveler's checks, and banks and credit unions sell them, though their ranks have significantly reduced today.

#### 3.4.3. Where to Cash Traveler's Checks

If you want to convert your traveler's checks into cash, (instead of spending them directly), you can often deposit them normally at your bank. Many hotel or resort lobbies will also provide this service to guests at no charge.

### 3.5.Entering transaction into relevant database

A **database** is information that is set up for easy access, management and updating. Computer databases typically store aggregations of data records or files that contain information, such as sales transactions, customer data, financials and product information. Databases are used for storing, maintaining and accessing any sort of data. They collect information on people, places or things. That information is gathered in one place so that it can be observed and analyzed. Databases can be thought of as an organized collection of information.

Transactions are a fundamental concept of all database systems. The essential point of a transaction is that it bundles multiple steps into a single, all-or-nothing operation. The intermediate states between the steps are not visible to other concurrent transactions, and if some failure occurs that prevents the transaction from completing, then none of the steps affect the database at all.

**Transactional data** is information that is captured from transactions. It records the time of the transaction, the place where it occurred, the price points of the items bought, the payment method employed, discounts if any, and other quantities and qualities associated with the transaction

A **foreign currency transaction** should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount, the exchange rate between the reporting currency and the foreign currency at the date of the transaction. The base currency of accounts receivable and accounts payable transactions is determined by the company entered in the header portion of the transaction. In short, a database transaction is a sequence of multiple operations performed on a database, and all served as a single logical unit of work — taking place wholly or not at all. In other words, there's never a case that only half of the operations are performed and the results saved.

<b>Self-Check – 3</b>	<b>Written test</b>
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Name..... ID..... Date.....

**Directions: Answer all the questions listed below.**

**Test I: Multiple choice (6Point)**

**I. Choose the best answer and encircle it.**

- Which one of the following refers to how much of one currency you can trade for a different currency?
  - Foreign Exchange
  - Significant cash transaction
  - Exchange rate.
  - Foreign currency transaction
- Which one the following is kind of exchanges rates?
  - Flexible exchange rate.
  - C. A foreign currency transaction
  - Fixed Exchange rate.
  - D. A & B
  - E. A & C
- Which one of the following is the correct statement?
  - Interest rates, inflation, and exchange rates are closely related because they directly influence each other.
  - Money supply, or how much cash a country has on hand, influences both inflation and exchange rates.
  - The country's economic health plays a role in determining its exchange rate.
  - All of the above
  - None of the above
- Which one of the following is the process of estimating the amount of money in one currency in the denomination of another currency?
  - Foreign currency translation
  - Transaction data
  - Traveler's checks
  - Foreign transaction

**Test II: Short Answer Questions (14 Points)**

**II. Write your answer according to the given question.**

**1. Discuss Foreign Currency Translation Methods briefly.**

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**2. Define exchange rate and discuss the factor affecting exchange rate.**

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**3. Define Foreign Currency Translation and discuss Foreign Currency Translation Process**

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**4. Discuss with your group on: What is Traveler's check, How Traveler's Checks Work? And Where to Cash Traveler's Checks?**

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**Note: Satisfactory rating - 10 points and above, but Unsatisfactory if you score - below 10 points. You can ask your teacher for the copy of the correct answers.**

## Operation Sheet-1

### 1.1. Techniques to calculate the exchange rate of foreign currency translation.

#### 1.1.1. Tools and equipments

- A. Stationary
- B. Computer
- C. Calculators

#### 1.1.2. Procedures for calculating exchange rate of foreign currency translation.

The equation for the exchange rate can be calculated by using the following steps:

- Determine the amount to be transferred or exchanged from domestic currency to foreign currency.
- Obtain/Access foreign exchange markets through trading platforms or through financial institutions to determine the available exchange rates prevalent between the two nations
- Perform multiplication of the exchange rate with the domestic currency to arrive at the foreign currency.

**Case #1:** Assume that a trader who wants to invest in the exchange-traded funds traded in US markets. The trader has ETB 10,000 to invest in the exchange-traded funds traded in the offshore market. However, the trader lives in Ethiopia, and 1ETB corresponds to 0.019 USD. How the trader can determine the value of ETB investment in terms of US currency?

#### Solution:

Use the below-given data to calculate the money after the exchange rate.

Particulars	Value
Exchange Rate	0.019
Money Before Exchange	ETB 10,000

Determine the value of exchange in terms of US dollars as displayed:-

$$\text{Money in After Exchange} = \text{Exchange Rate} \times \text{Money before Exchange}$$

$$\text{Money in After Exchange} = 0.019 \times 10,000 = \$ 190.$$

Therefore, the trader would get \$190 in USD dollars when he approaches a bank or a foreign exchange institution to convert ETB to USD currency.

**Case #2:** Let us take an individual planning a trip from the USA to the European Union. He has a planned budget of \$5,000. The travel agent informs the traveler that if he exchanges US dollars to Euro, he will get €4,517.30. How the traveler can determine the exchange rate between the USA and the Euro?

**Solution:**

Use the below-given data for the calculation of the exchange rate.

Particulars	Value
Money in After Exchange	€ 4,517.30
Money Before Exchange	\$5,000

Determine the exchange rate between US and Euro as displayed:

$$\text{Exchange Rate} = \frac{\text{Money in After Exchange}}{\text{Money before Exchange}}$$

$$\text{Exchange Rate} \left( \frac{\text{€}}{\text{\$}} \right) = \frac{\text{€ } 4,517.30}{\$5,000} = 0.90346$$

Therefore, the exchange rate between the US and Euro is **0.90346**. Therefore, if the traveler plans to raise the budget, he can consider the above-calculated exchange rate.

**Case #3:** Let us take the example of a trader from the USA to make investments in the UK financial market. He has a planned budget of \$20,000. The offshore broker informs the trader that if he exchanges US dollars for the British pound, he will get £15,479.10. How you can help the trader to determine the exchange rate between the USA and UK?

**Solution:**

Use the below-given data for the calculation of the exchange rate.

Particulars	Value
Money After Exchange	£15,479.10
Money Before Exchange	\$20,000

Determine the exchange rate between US and Euro as displayed: –

$$\text{Exchange Rate} = \frac{\text{Money in After Exchange}}{\text{Money before Exchange}}$$

$$\text{Exchange Rate} \left( \frac{£}{\$} \right) = \frac{£15,479.10}{\$20,000} = 0.77395$$

Therefore, the exchange rate between the US and Euro is 0.9034. Therefore, if the traveler plans to raise the budget, he can consider the above-calculated exchange rate.

LAP TEST-1	Performance Test
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Name..... ID.....

Date.....

Time started: \_\_\_\_\_ Time finished: \_\_\_\_\_

**Instructions:** Given necessary templates, tools and materials you are required to perform the following tasks within **1** hour. The project is expected from each student to do it.

**Task-1: Perform calculation of exchange rate of foreign currency translation for following given cases:**

**Case #1:** Assume that a trader who wants to invest in the exchange-traded funds traded in US markets. The trader has ETB 25,000 to invest in the exchange-traded funds traded in the offshore market. However, the trader lives in Ethiopia, and 1ETB corresponds to 0.0195 USD. How the trader can determine the value of ETB investment in terms of US currency?

**Case #2:** Let us take an individual planning a trip from the USA to the European Union. He has a planned budget of \$15,000. The travel agent informs the traveler that if he exchanges US dollars to Euro, he will get €14,527.30. How the traveler can determine the exchange rate between the USA and the Euro?

<b>LG #26</b>	<b>LO #4- Maintain accurate records of transaction</b>
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<b>Instruction sheet</b>
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> <li>❖ Completing vouchers and receipts</li> <li>❖ Completing and reporting significant cash transactions</li> <li>❖ Updating and maintaining internal records of foreign currency transactions</li> </ul> <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> <li>• Complete required vouchers and receipts in accordance with organisation procedures and required signatures are obtained on relevant documentation</li> <li>• Complete and file relevant reports in the event of significant cash transactions including relevant reports where a transaction is considered a possible suspect transaction</li> <li>• Update and maintain internal records of foreign currency transactions in accordance with organizational procedures</li> </ul>
<b>Learning Instructions:</b>
<ol style="list-style-type: none"> <li>1. Read the specific objectives of this Learning Guide.</li> <li>2. Follow the instructions described below.</li> <li>3. Read the information written in the information Sheets</li> <li>4. Accomplish the Self-checks</li> </ol>

## Information Sheet 4

### 4.1. Completing vouchers and receipts

Vouching is the act of examining documentary evidence in order to ascertain the accuracy of entries in the account books. Simply stated, vouching means a careful examination of all original evidence i.e. traveler's checks, invoices, statements, receipts, correspondence, minutes and contracts etc. with a view to ascertain the accuracy of the entries in the books of accounts and also to find out, as far as possible, that no entries have been omitted in the books of accounts. Therefore, vouching is the act of testing the truth of entries appearing in the primary books of accounts.

**Voucher** is known as the evidence in support of a foreign currency transaction in the books of account. It may be traveler's checks, receipts, requisition form, agreement, decision, bank paying slip etc.

#### Receipt Voucher

Receipt vouchers are prepared for all the money the business firm has received. They are an internal business supporting document which is made for the time cash or checks are received by the business. They include supporting documents such as customer invoices. Money is usually received in the forms of Cash, Checks/ traveller's checks, Pay orders/demand drafts, direct transfer in bank account of the firm.

**In order to maintain accurate record of foreign currency transaction,** required vouchers and receipts are completed in accordance with organisation procedures and required signatures are obtained on relevant documentation.

The vouching procedure should be as far as possible be completed at one stretch. Test checking should be resorted only in case where the auditor is satisfied with the internal check system.

### 4.2. Completing and reporting significant cash transactions

**Significant cash transactions** are transactions involving currency (i.e. coin and paper money of Ethiopia or of a foreign country) in excess of the equivalent of Birr 200,000 or as determined by legislation.

### **Significant Cash Transaction Reports (SCTR)**

Banks should report Cash transaction to Financial Intelligence Service based on the proclamation No. 780/2013 and customer Due Diligence Directives of National Bank of Ethiopia No. SBB/46/2010.

Relevant reports are completed and filed in the event of significant cash transactions including relevant reports where a transaction is considered a possible suspect transaction.

If you are involved in a significant cash transaction of Birr 200,000 or more (or the foreign currency equivalent) you must submit a significant cash transaction report (SCTR). This includes receiving amounts of cash from the same customer which together amount to Birr 200,000 or more.

If the transaction involves foreign currency, you must report by the end of the day after the transaction took place. If the transaction was all Ethiopian currency, you have until 15 days after the day the transaction took place to report.

### **Example of a significant cash transaction**

Alpha Cars is a motor vehicle dealer that offers its customers motor vehicle insurance policies on behalf of Delta Insurance. This means that Alpha Cars is an insurance intermediary and a cash dealer under the Financial Transactions Reports (FTR) Act.

Mr. Kappa purchased a motor vehicle from Alpha Cars and paid a deposit of Birr 10,000 in cash on Monday and returned the following day to pay the balance of Birr 15,000 in cash. Alpha Cars accepted the payments.

In this example, Alpha Cars must submit two SCTR to Financial Intelligence Service Ethiopia:

- One for the cash deposit of Birr 10,000
- Another for the final cash payment of Birr15,000.

#### **4.3.Updating and maintaining internal records of foreign currency transactions**

In foreign exchange market internal records of foreign currency transactions are updated and maintained in accordance with organizational procedures.

Unless otherwise specifically stated in the features of the account, a foreign currency account maintained by a person resident in Ethiopia with an authorized dealer in Ethiopia can be opened, held and maintained in the form of current or savings or term deposit account in cases where the account holder is available.

<b>Self-Check – 4</b>	<b>Written test</b>
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Name..... ID..... Date.....

**Directions: Answer all the questions listed below.**

**Test I: Multiple choice (6Point)**

**III. Choose the best answer and encircle it.**

- \_\_\_\_\_ the act of examining documentary evidence in order to ascertain the accuracy of entries in the account books.
  - Vouching
  - Voucher
  - Significant cash transaction
  - D. Exchange rate**
  - Receipts voucher
- Which one of the following is known as the evidence in support of a foreign currency transaction in the books of account?
  - Vouching
  - Voucher
  - Significant cash transaction
  - D. Exchange rate**
  - Receipts voucher
- \_\_\_\_\_ are transactions involving currency (i.e. coin and paper money of Ethiopia or of a foreign country) in excess of the equivalent of Birr 200,000 or as determined by legislation.
  - Vouching
  - Voucher
  - Significant cash transaction
  - D. Exchange rate**
  - Receipts voucher

**Test II: Short Answer Questions (14 Points)**

**IV. Write your answer according to the given question.**

1. Define Vouching.

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2. Discuss on voucher and receipts.

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3. Discuss on significant cash transaction report briefly.

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**Note: Satisfactory rating - 10 points and above, but Unsatisfactory if you score - below 10 points. You can ask your teacher for the copy of the correct answers.**

## Reference Materials

### Books:

Theodore E. Christensen, David M. Cottrell, Richard E. Baker. (2014), Advanced Financial Accounting Tenth Edition

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Page 43 of 46	Ministry of Labor and Skills Author/Copyright	Cooperative Accounting and Auditing Level -1	Version -1
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