

## EITF ABSTRACTS

Issue No. 92-8

**Title:** Accounting for the Income Tax Effects under FASB Statement No. 109 of a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary

**Date Discussed:** May 21, 1992

**References:** FASB Statement No. 52, *Foreign Currency Translation*  
FASB Statement No. 96, *Accounting for Income Taxes*  
FASB Statement No. 109, *Accounting for Income Taxes*  
FASB Statement No. 130, *Reporting Comprehensive Income*  
APB Opinion No. 11, *Accounting for Income Taxes*

### ISSUE

In Issue No. 92-4, "Accounting for a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary," the Task Force reached a consensus that a change in functional currency from the reporting currency to the local currency when an economy ceases to be considered highly inflationary should be accounted for by establishing new functional currency bases for nonmonetary items. Those bases are computed by translating the historical reporting currency amounts of nonmonetary items into the local currency at current exchange rates.

As a result of applying the consensus in Issue 92-4, the functional currency bases generally will exceed the local currency tax bases of nonmonetary items. The differences between the new functional currency bases and the tax bases represent temporary differences under Statement 109, for which deferred taxes must be recognized.

The issue is whether under Statement 109 an entity should account for the income tax effects of a change in functional currency when an economy ceases to be considered highly inflationary as a charge to income tax expense or a charge to the cumulative translation adjustments component of shareholders' equity.

## **EITF DISCUSSION**

The Task Force reached a consensus that the deferred taxes associated with the temporary differences that arise from a change in functional currency when an economy ceases to be considered highly inflationary should be reflected as an adjustment to the cumulative translation adjustments component of shareholders' equity. [Note: See STATUS section.] Task Force members also noted that if a change in functional currency is made before the initial adoption of Statement 109, any deferred tax effect of the change in functional currency would be included in the cumulative effect of the adoption of Statement 109.

## **STATUS**

In June 1997, the FASB issued Statement 130, which amends Statement 52 to require that translation adjustments should be reported in other comprehensive income. The balance of those adjustments continues to be reported in a separate component of shareholders' equity until sale or complete or substantially complete liquidation of the investment in the foreign entity. Therefore, the deferred taxes that are the subject of this Issue would be recognized in other comprehensive income.

No further EITF discussion is planned.