

# Emerging issues task force (eitf) related to accounting for multiple exchange rat...

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Emerging Issues Task Force (EITF) related to Accounting for Multiple Exchange Rates, Issue No. 10B Overview An organization was created in year 1984 by the Financial Accounting Standards Board (FASB) to offer support with timely monetary reporting. This resulted in the formation of an advisory group, which evolved into the Emerging Issues Task Force (EITF). The main mission of EITF is to assist the FASB to recognize the rising issues and determine them with a unique set of practices (Financial Accounting Standards Board, n. d.). Influence of Emerging Issues Task Force on Generally Accepted Accounting Standards Emerging Issues Task Force (EITF) was formed by FASB to provide appropriate responses to the rising financial issues as it tries to resolve them without the involvement of FASB. The EITF was primarily intended to reduce the requirement for the FASB to spend time as well as effort addressing application, narrow implementation or other rising issues that can be analyzed within existing Generally Accepted Accounting Standards (GAAS). The various influences of EITF on the GAAS are stated in brief manner. According to EITF, in case of a business, where the period of operating cycle is in excess of twelve months, the extended period should be used for action whereas when no particular operating cycle is defined, then the one year rule should be operated. Moreover, the current liabilities are described as obligations the liquidation of which requires the use of existing resources such as current assets. Assets and liabilities, income and expenses are offsetted only when both the parties repay each other in determinable amounts and when it is accepted by law. Furthermore, EITF states website cost as an intangible asset. Thus, the accounting treatment of website depends on which purpose it is utilized, such as for

internal or external use. EITF provides direction for determination of lease of an arrangement. Thus, this shows few of the significant impacts on the Generally Accepted Accounting Standards (GAAS). In an agency relationship, the amount billed to the customers for shipping, handling and reimbursement is classified as revenue in the income statement. These are referred as out of pocket expenses. This also influences GAAS (Thronton, 2007). Principal Issue Related To Accounting For Multiple Exchange Rates In relation to EITF issue number 10B, the use of multiple exchange rates may not be applicable for an economy where foreign currency matters and provides supervision on the use of a suitable exchange rate for conversion of an entity's operations in a foreign country and remeasurement of its foreign currency transactions. This issue focuses on the accounting implications for entities that function in foreign countries with multiple exchange rates. It is not appropriate to utilize different exchange rates in an economy for the measurement of foreign currency transaction. This signifies that the foreign currency transaction should be translated at a particular applicable rate through which the operation can be settled at the particular date (Deloitte, 2010). If the unusual circumstances are absent then the dividend rate can be used to translate the financial statements of foreign subsidiary. Moreover, based on the conclusions of FASB, it is revealed that the revenue generated from the foreign currency transactions provide a different economic impact than those resulting from translated foreign currency financial statements (FASB Emerging Issues Task Force, n. d). Thus, it is believed that the transaction income directly affects the direct cash flow of the economy. It is also assumed that the use of a specific dividend rate for translating the

foreign currency financial statements is much more beneficial than any other rate as the cash flow gets included in the net investment realization of the economy. Conclusively, it can be observed that multiple exchange rates are not beneficial for an economy (KPMG LLP, 2010). Conclusion Reached by EITF Related To the Issue and How It Arrived At This Conclusion The conclusion reached by Emerging Issues Task Force (EITF) to the issue of accounting for multiple foreign exchange rates (10B) is that the use of dissimilar exchange rates or remeasurement and conversion purpose ultimately result in deformation of Dollar as the actual US Dollar denominated balance provided by the foreign subsidiary differs from the authentic amount reported by the parent individual. Thus, it can be stated that the use of differential exchange rates may cause a negative impact on the total revenue and may lead to financial crisis in the economy (KPMG LLP, 2010). The Emerging Issues Task Force (EITF) arrived to this conclusion after observing the effects of inflation of Venezuelan economy utilizing diverse exchange rates. These practices led to financial deformation in the economy. Due to this financial impact, EITF reached to the above conclusion for the issue of 10B. However, this issue still remains as an open memo, which needed further discussion (PricewaterhouseCoopers LLP, 2011) Discuss Whether Or Not You Agree With The EITF Findings And On What Basis Have You Come To This Conclusion. Based on the above observations, it is relevant to agree to the findings of EITF for the issue of 10B. EITF concluded that the use of diverse exchange rates for translating foreign currencies can be detrimental for the economy. It can create differences in the total revenue generation of the economy from foreign earnings. As, foreign earnings play a vital role among the total

returns of the economy, so distortion on this regard may cause downfall of the financial sector and real Gross Domestic Product (GDP). Thus, it can result in financial crisis in the economy. References Deloitte, (2010). EITF Snapshot. Retrieved from <http://www.iasplus.com/usa/eitf/eitfsnapshot1007.pdf> Financial Accounting Standards Board, (n. d). Emerging Issues Task Force (EITF). Retrieved from <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220137512> FASB Emerging Issues Task Force, (n. d). Accounting for Multiple Foreign Currency Exchange Rates. Retrieved from [http://www.gasb.org/cs/ContentServer?c=Document\\_C&pagename=FASB%2FDocument\\_C%2FDocumentPage&cid=1176157088122](http://www.gasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176157088122) KMPG LLP, (2010). Defining issues. Retrieved from <http://www.kpmginstitutes.com/financial-reporting-network/insights/2010/pdf/di-10-39-eitf-reaches-two-fianl-consensuses.pdf> PricewaterhouseCoopers LLP, (2011). CFO directs network. Retrieved from <http://www.cfodirect.pwc.com/CFODirectWeb/Controller.jsp?NavCode=MSRA-74MKZ3> Thornton, G., (2007). Comparison between us. Retrieved from [http://www.grantthornton.com/staticfiles/GTCom/files/AboutUs/Assurance\\_thought\\_leadership/Grant\\_Thornton\\_U%20S%20GAAP\\_v\\_IFRS\\_Comparison.pdf](http://www.grantthornton.com/staticfiles/GTCom/files/AboutUs/Assurance_thought_leadership/Grant_Thornton_U%20S%20GAAP_v_IFRS_Comparison.pdf)