

## **FOREIGN CURRENCY TRANSLATION: NEW ACCOUNTING STANDARDS IN AUSTRALIA**

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### **Abstract**

The case examines the effects of the adoption of Australian equivalents to International Financial Reporting Standards related to foreign currency translation on the accounts of two Australian multinational companies operating in the oil and gas industry and one insolvent manufacturing firm. In January 2005 the Australian Accounting Standards Board (AASB) issued accounting standard AASB 121 *The Effects of Changes in Foreign Exchange Rates*, which was based on the international standard IFRS 21 with the same title. Students explore the accounting effects of AASB 121, compare with U.S. FASB 52, evaluate the adequacy of the translation adjustment, devise strategies for the company, and consider ethical aspects surrounding earnings management motivations in choosing the functional currency.

The case is designed to give financial accounting and international finance students opportunities to examine the process of translating foreign currency based financial statements and to make decisions from the viewpoint of a financial analyst. A detailed TN is available from the authors.

**KEY WORDS:** Translation process, functional currency, international accounting convergence

### **FOREIGN CURRENCY TRANSLATION: A CASE STUDY ON NEW ACCOUNTING STANDARDS IN AUSTRALIA**

Anna graduated from a U.S. university with a degree in accounting and a minor in international finance about 5 years ago and is licensed as a CPA. She works for a dynamic and evolving investment firm, Global Financial Services that operates both locally and overseas. However, her work experience as a financial accountant and securities analyst has been limited so far to U.S. multinational companies. In 2007, as a result of significant growth and international expansion of Global Financial Services, particularly in the Asia-Pacific region, Anna was offered the opportunity to work as a financial analyst for Global's subsidiary in Australia. The position would provide her with exposure to the global investment aspects of the business. Moreover, she would be a team leader, a role offering significant autonomy and challenge. She would need to move to Brisbane and become familiar with the new environment.

Anna accepts the opportunity and arrives in Brisbane in March 2008. She learns immediately that the new position requires sound knowledge and understanding of Australian accounting practices and

statutory reporting, company law and tax regulations, legislative and regulatory requirements, and future prospects of Australian multinational companies (MNCs).

She observes that, a significant increase in oil and gas prices, attracts investment in oil and gas companies. However, many international investors are concerned about the impact on profits caused by currency fluctuations since the Asian financial crisis revealed the critical role currencies play in the global economy. Anna is particularly interested in Australian multinational firms in the oil and gas industry and the effect changes in foreign exchange rates have on their financial statements. Anna's employer expects that she analyses the consolidated financial statements of these firms.

Significant growth in international investments and operations during the last few decades have led to the challenging task of developing appropriate rules for measuring and reporting results of foreign subsidiaries in the consolidated financial statement of MNCs. Most foreign subsidiaries keep their books and records in the local currency and follow the accounting principles of the country where they operate. Results are reported to local investors and tax authorities. The parent company needs translates the statements into the presentation (reporting) currency for inclusion in the consolidated statements. The foreign currency translation adjustment, which reflects the effects of exchange rate changes on the value of an entity's foreign assets and liabilities, can be a major component of comprehensive income.

At the time Anna arrives to Brisbane, Australia is in the process of implementing Australian equivalents to International Financial Reporting Standards (IFRS), called Australian IFRS (AIFRS), which replaced Australian generally accepted accounting principles (AGAAP) for financial reporting purposes. In 2004 the Australian Accounting Standards Board (AASB) had issued a new accounting standard, AASB 121 *The Effects of Changes in Foreign Exchange Rates*, which replaced AASB 1012 *Foreign Currency Translation*, and applies to accounting for foreign currency transactions and governs foreign currency translation for consolidation purposes. AASB 121 was based on the international accounting standard IFRS 21 *The Effects of Changes in Foreign Exchange Rates*. Also, AASB 129, which establishes specific standards for entities reporting in the currency of a hyperinflationary economy, was issued, which mirrors IAS 29 *Financial Reporting in Hyperinflationary Economies*. AIFRS were applicable for reporting periods beginning after December 31, 2004, and entities were required to restate comparatives and provide reconciliations to AGAAP upon first-time adoption.

Anna learns that IFRS 21 (IAS 21), revised in 2003, is to a great extent in line with the corresponding U.S. GAAP, Statement of Financial Accounting Standards (SFAS) 52 *Foreign Currency Translation*. She is aware of the Norwalk Agreement and efforts of the IASB and FASB to converge on high-quality global accounting standards that would be suitable for both domestic and cross-border financial reporting. She decides to examine AASB 121 and SFAS 52 to identify differences between these standards. Anna is aware that the translation of foreign currency financial statements has been one of the most controversial topics in financial reporting. There is substantial diversity of opinion as to (1) which exchange rate to apply in translation, and (2) whether the favorable or unfavorable effects of exchange rate changes should be reported currently in net income (profit) or in shareholders' equity. Accountants disagree on the appropriate exchange rates for the translation of nonmonetary assets, and because of this disagreement, different translation approaches exist.

Anna learns that the concept of functional currency is the key to understanding translation of financial statements. Functional currency is defined as being the currency of the primary economic environment in which an entity operates. Under AASB 121, each individual entity included in the reporting entity's financial statements is required to determine its functional currency, and to measure its results and financial position in that currency. Anna also finds out that under AIFRS, if the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with AASB 129 *Financial Reporting in Hyperinflationary Economies*.

Anna is also concerned about the potential impact of the new Australian standard AASB 121 on financial results of MNCs, since the approach to foreign currency translation recommended varies from the previous (superceded) standard. Moreover, Anna has to prepare for her employer a proposal for treating foreign currency translations on the financial statements of her company's clients.

The potential impact of the new accounting standard on the company's statement of recognized income and expense, reported as comprehensive income in the U.S.A. (e.g., on profits, other comprehensive income, earnings per share calculations) and statement of financial position (e.g., net income) is an important consideration in investment decisions, which would affect key indicators and ratios. She uses earnings to value the firm, either by estimates of expected cash flows from previous

earnings, or by applying a price/earnings ratio to derive value per share. Additionally, since dividends can only be paid from profits, the new accounting standard may affect the amount available for distributions to shareholders, even though the company's capacity for dividend payments has not changed. She obtains copies of the new accounting standard AASB 121, IFRS 21 and former accounting standard AASB 1012 *Foreign Currency Translation* from a CPA in Brisbane. From that CPA she learns that from September 1987 to January 2005 Australian accounting standard AASB 1012 "Foreign currency Translation" was the accounting rule, which governed the foreign currency translations in Australia.

AASB 1012 classified foreign-based operations into those that are "self-sustaining" and those that are "integrated". This particular classification had a direct impact on the rules applied in translation of subsidiaries' accounts. The accounting standard prescribed two principle ways to translate the accounts of foreign operations: the current and temporal methods. The current method was required to translate the financial statements of a self-sustaining foreign operation. Where a foreign operation is integrated, the temporal method was used to translate the foreign operation's statements to reporting currency. Also another Australian accounting standard, AASB 1034 "Financial Report Presentation and Disclosures", required entities to use the Australian currency as both the measurement (functional) and reporting (presentation) currency.

Anna also discovers that, according to the new Australian accounting standard, "entities that comply with AASB 121 are also in compliance with IFRS 21" (AASB 121). She agrees with this statement, but finds that some environmental adjustments are necessary in the Australian standard. Although AASB 121 is the equivalent of IFRS 21, some differences between these two sets of standards relate mainly to the extent of guidance provided. Anna is interested in identifying the differences between AIFRS (or IFRS) and U.S. GAAP on foreign currency translation. Foreign companies listed in the U.S. are required to reconcile financial statements prepared under IFRS or national standards to U.S. GAAP, although in November 2007 the SEC voted unanimously to eliminate this requirement. She realizes differences in terminology used in IFRS 21 and FASB 52, which are summarized in the following table:

**TABLE 1**  
**DIFFERENCE IN TERMINOLOGY**

<b>IFRS 21 ( and AASB 121)</b>	<b>FASB 52 equivalent</b>
The closing exchange rate	The current exchange rate
The presentation currency	The reporting currency
Translation into the presentation currency method	The current rate method
Translation into the functional currency	The temporal (remeasurement) method
Foreign exchange differences	Foreign currency translation adjustment

Major differences between AIFRS (or IFRS) and U.S. GAAP in translation relate to the process of selecting the functional currency and translating accounts in hyperinflationary economies. She is concerned that these differences could lead to non-comparability of financial reports. She decides to examine the objectives of foreign currency translation as stated in AASB 121 and FASB 52, as well as to review respective frameworks for a definition of comparability as the qualitative characteristic of accounting information.

Anna also is interested in the potential effects of implementing AIFRS on financial results of public companies in the oil and gas industry. This industry is more likely to be affected by foreign currency exposure. Also, high exploration costs, exports, price-inelastic demand, links between worldwide prices (which are denominated in U.S. dollars) and exchange rates are distinctive economic features of this industry.

She obtains copies of the Annual Reports of Santos Limited and Marion Energy Limited, two Australian companies from the oil and gas industry. Santos, a multinational company operating worldwide, prior to 2005 used the current rate translation method (under U.S. GAAP also called the current rate method) to translate to the presentation currency. As a result of implementing AASB 121, the company adopted the U.S. dollar as the functional currency for several foreign subsidiaries, and losses of 5.7 million Australian dollars on remeasurement into the functional currency were charged against profits.

Moreover, 195.3 million dollars in losses (instead of 9.0 million losses) were accumulated in equity and reported in the translation reserve and in other recognized income and expenses.

In 2004-2005, the Australian multinational firm *Marion Energy Limited* with activities in U.S.A. (Texas and Utah), repositioned itself as an oil and gas exploration and production company. For the year ending June 30, 2005, the financial statements of Marion's foreign operations were prepared under the accounting standard AASB 1012 and translated into the reporting (parent's) currency, Australian dollar (AUD), by using the temporal method. Translation losses of AUD 451,830 were charged against profits in the financial statement. However, the financial statements for the year ending June 30, 2006, were prepared in accordance with the new accounting standard AASB 121. Since the U.S. dollar was the functional currency of most foreign operations as well as the currency in which transactions were recorded, translation losses were reported in equity, instead of being charged against profits under the new standard.

Reviewing a web site, Anna discovers some articles written by Louis [2003] and Pinto [(2005)] about an economic analysis of the foreign currency translation adjustment for firms in the manufacturing sector. The findings indicate that the accounting rules governing the foreign currency translation adjustment produce results opposite to the economic effects of exchange rate changes. Louis argues that the depreciation of a local currency (the economic effect) entails a negative translation adjustment (the accounting effect), but at the same time results in an increase in profits and, hence, value for a foreign operation (the financial effect). Thus, the economic gains could result in accounting losses.

She understands that a translation adjustment could represent a "paper" gain or loss and that such non-cash gains or losses could impact on the usefulness of the accounting information. She realizes that the selection of the functional currency is an important issue. As a consequence, innocent but incorrect choices could adversely affect comparability of financial statements.

On the website of the Australian Stock Exchange, Anna reads that the bankruptcy court appointed new administrators for *Atlantic Limited*, an Australian based multinational company with principal activities in marketing pearls and pearl products, on February 16, 2007. *Atlantic Limited* had become insolvent. It seemed that currency fluctuations contributed to the failure of the company. The announcement emphasized that in its 2006 annual report, *Atlantic Limited* provided information on the effect of transition to the Australian equivalent to International Financial reporting standards for years 2004 through 2006. The adoption of accounting standard AASB 121 was the only factor that had an impact on the financial statements of *Atlantic Limited*.

Anna decides to spend the weekend analyzing the impact on the financial statements of *Atlantic Limited* of the adoption of AASB 121 and its method of foreign currency translation. Since, most of the oil and gas multinational companies prepared reports in accordance with U.S. GAAP or IFRS she wants to analyze the annual reports of U.S. oil and gas companies operating in the U.S. to identify major differences in accounting for and reporting of foreign currency translation effects. Also she wants to analyze the annual reports of Australian oil and gas companies operating in the U.S. *Marion and Santos* are two such companies that have a history of operating in the U.S. and selecting the U.S. dollar instead of the Australian dollar as functional currency under the new standard. Anna has collected information and prepared tables showing the financial ratios for the three firms: Marion, Santos and Atlantic.

## ASSIGNMENT

As a member of Anna's team, you are asked to assist Anna in presenting a proposal to your employer of how to treat foreign currency translations on the financial statements of the company's clients.

Excerpts from the Santos Limited annual reports 2003-2006 and market value information are included in Exhibits 1.1-1.2 and Table 2, excerpt from Marion Energy Limited are included in Exhibits 1.3 and excerpts from the Atlantic Limited annual reports 2004-2007 are included in Exhibits 1.4. Major differences between standards AIFRS 121 and FASB 52 are provided in Exhibit 2. Applicable sections of the IASB *Framework*, Australian (AASB) *Framework*, and U.S. FASB *Concepts Statement No 2* are provided in Exhibit 3. Excerpts of currency disclosure from the financial statements of U.S. oil and gas companies are provided in Exhibit 4. Objectives of standards AIFRS 121 and FASB 52 are presented in Exhibit 4.

**EXHIBIT 1.1  
SANTOS LIMITED**

<b>Balance Sheet (in million AUD)</b>	<b>GAAP 2003</b>	<b>GAAP 2004</b>	<b>GAAP 2004(restated)</b>	<b>AIFRS 2005</b>
<b>Total Shareholders' Equity</b>	3,087.9	3,498.3	2,357.8	2,964.0
Translation Reserve:	(8.8)	(9.0)	(195.3)	(184.3)
Movement in Reserve	(4.7)	(0.2)	(40.6)	11.0
<b>Total Assets</b>	5218.3	5,956.0	4,836.6	6,191.3
<b>Net Profit</b>	327.0	379.9	354.7	762.1
<b>Sales</b>	1,465.0	1,500.9	1,500.0	2,462.8
<b>Ratios: ROE</b>	0.10	0.11	0.15	0.26
Profit Margin	0.22	0.25	0.23	0.31
Assets Turnover	0.28	0.25	0.31	0.39
Equity Multiplier	1.69	1.70	2.05	2.09

ROE	=	Net Profit/Sales	x	Sales/Assets	x	Assets/Equity	=	Net Profit/Equity	
ROE	=	Profit margin	x	Asset Turnover	x	Equity Multiplier	=	ROE	
ROE (2005)	=	30.94%		x	39.78%	x	2.09	=	26%
ROE (2004r) <sup>1</sup>	=	23.63%		x	31.03%	x	2.05	=	15%
ROE (2004o) <sup>2</sup>	=	25.30%		x	25.29%	x	1.70	=	11%
ROE (2003)	=	22.30%		x	28.07%	x	1.69	=	10.6%

1. 'r' – restated      2. 'o' - original

**EXHIBIT 1.2  
SANTOS LIMITED ANNUAL REPORT 2005**

**(a) Functional currency**

The functional currency adjustments reflect the adoption of the US dollar as the functional currency for the Timor Gap, Indonesian and Papua New Guinean operations. The assets carrying value are adjusted using the Australian dollar to US dollar exchange rate at each balance date with differences due to exchange rate movements reflected in the foreign currency translation reserve.

The effect on the consolidation entity is to decrease net assets by \$152.3 million at 1 January 2004 and decrease net assets by \$ 31.8 million at 31 December 2004. This resulted in a \$5.7 million decrease in profit for consolidated entity in 2004.

**TABLE 2  
ACCOUNTING, ECONOMIC AND FINANCIAL EFFECT OF FOREIGN EXCHANGE DIFFERENCES**

<b>Santos Limited</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2004(restated)</b>	<b>2005</b>	<b>2006</b>
Translation Reserve:						
Movement :	N/A	(8,8)	(9,0)	(195,3)	(184,3)	(213,9)
Foreign differences:	(5,8)	(4,7)	(0,2)	(40,6)	11,01	(29,6)
	(25,5)	(91,1)	(12,3)	(52,7)	57,1	(81,6)
Net income	322,1	327,0	379,9	354,7	762,1	643,4
ROE market values	2,0	19,1	27,8	27,8	48,7	(19,4)
ROE book value	11,24	10,57	10,84	15,03	25,72	(19,17)

ROE (market value%) = (Share price in the end of the year – share price in the beginning of the year) + Dividend/ Share price in the beginning of the year; ROE (book value) = Net Income / Equity

Source: Information extracted from Santos Ltd. Annual Reports and ASX web site

Santos prior to 2005 used the current rate method for translation into the presentation currency – Australian dollar with exchange differences reported in equity. As a result of implementing AASB 121, the company adopted the U.S. dollar as the functional currency for several foreign subsidiaries, and gains or losses on translation into functional currency (remeasurement) affected the amount of profits. During this period the Australian dollar has strengthened against the U.S. dollar and the company recorded a negative translation adjustment (exchange differences).

**EXHIBIT 1.3  
MARION ENERGY LIMITED**

Balance Sheet (in million AUD)	GAAP 2004	GAAP 2005	AIFRS 2005(restated)	AIFRS 2006
<b>Total Shareholders' Equity</b>	14,030.577	23,501.610	26,211.707	49,676.677
Translation Reserve:	-	-	(451.830)	(544.602)
Translation Adjustment			(451.830)	(92.772)
<b>Total Assets</b>	14,134.799	24,653.938	27,364.035	51,730.129
<b>Net Income</b>	89.603	(1,743.874)	(1,276.947)	(4,146.992)
Translation adjustment (Currency Losses) in Net Income	-	<b>(451.830)</b>	-	-
<b>Net Income less Currency losses</b>			(1,292.044)	
<b>Sales</b>	-	584.906	584.906	965.969
<b>Ratios: ROE</b>	0.006	(0.075)	(0.05)	(0.085)
Profit Margin		(2.98)	(2.18)	(4.29)
Assets Turnover		0.024	0.021	0.019
Equity Multiplier	1.007	1.05	1.04	1.04
Transl. Adjustment / Net Income		<b>0.25</b>		
Translation Adjustment/Equity		<b>0.019</b>	<b>0.017</b>	<b>0.0019</b>

ROE	=	Profit Margin	x	Asset Turnover	x	Equity Multiplier	=	ROE
ROE(2006)	=	(429.3)%	x	1.9%	x	1.04	=	(8.5)%
ROE(2005r)	=	(218.3)%	x	2.14%	x	1.04	=	(5)%
ROE(2005o)	=	(298.1)%	x	2.4%	x	1.05	=	(7.5)%
<i>Effect of AASB 121:</i>								
ROE (2005r)	=	(221.00)%	x	2.14%	x	1.04	=	(5)%
ROE (2005o)	=	(298.15)%	x	2.4%	x	1.05	=	(7.5)%

**EXHIBIT 1.4  
ATLANTIC LIMITED**

Balance Sheet (in million \$)	AGAAP 2004	2004 (restated)	AGAAP 2005	AIFRS 2005 (restated)	AIFRS 2006	AIFRS 2007
<b>Equity</b>	1,004.347	520.118	(508.295)	(917.912)	(3,615.931)	(8,780.299)
Transl. Reserve:	-	(484.229)	-	(409.617)	(231.526)	293.747
Transl. Adjustment		(484.229)		(409.617)	178.091	525.273
<b>Total Liabilities</b>	5,894.134	5,891.880	7,757.818	7,757.818	8,778.725	9,949.897
<b>Net Assets or Net Liabilities</b>	1,004.347	520.118	(508.295)	(917.912)	(3,615.931)	(8,750.299)
<b>Total Assets</b>	6,898.481	6,411.998	7,249.523	6,839.906	5,162.794	1,169.598

<b>Net profit</b>	(1,726.632)	(1,726.632)	(1,512.642)	(3,785.892)	(602.860)	(5,689.641)
<b>Sales</b>	891.479	891.479	1,189.514	1,020.344	1,012.108	771.674
<b>Ratios: ROE</b>	(172)	(332)	298(loss)	412(loss)	17(loss)	64 (loss)
Profit Margin	(1.93)	(1.93)	(1.27)	(3.71)	(0.59)	(7.38)
Assets Turnover	0.129	0.139	0.164	0.149	0.196	0.659
Equity Multiplier	6.88	12.34	(14.27)	(7.46)	(1.43)	(0.13)

ROE	= Profit Margin	x	Asset Turnover	x	Equity Multiplier	=ROE
ROE (2004)	= (193.7)%	x	12.9%	x	6.88	= (172)%
ROE (2004r)	= (193.7)%	x	13.9%	x	12.34	= (332)%
ROE (2005)	= (127.2)%	x	16.4%	x	(14.27)	= 298 % loss/negative equity
ROE (2005r)	= (371.0)%	x	14.9%	x	(7.46)	= 412 % loss/negative equity
ROE (2006)	= (59.5)%	x	19.6%	x	(1.43)	= 17 % loss/negative equity
ROE (2007)	= (738.3)%	x	65.9%	x	(0.13)	= 64 % loss/negative equity

**EXHIBIT 2**  
**MAJOR DIFFERENCES BETWEEN STANDARDS**

<b>AASB 121 (AIFRS treatment)</b>	<b>FASB 52 (U.S. GAAP treatment)</b>
<p>1. In selecting the functional currency greater emphasis is given to the currency of the economy that influences sales prices for goods and services.</p> <p>2. IFRS is silent on the translation of equity accounts.</p> <p>3. If the functional currency is the currency of a hyperinflationary economy, the financial statements of subsidiaries must be adjusted to reflect changes in general price levels before translation.</p> <p>Hyperinflation is indicated by characteristics of the economic environment of a country, which include: the general population's attitude towards the local currency, prices linked to a price index, and the cumulative inflation rate over three years is approaching, or exceeds 100%.</p> <p>4. The entity can select one or more presentation currencies.</p>	<p>1. There is no hierarchy of indicators determining an entity's functional currency and, in general, an entity has a free choice of functional currency. In practice, there is a greater focus on the cash flows rather than the currency that influences the pricing.</p> <p>2. Equity accounts are translated using the historical rates.</p> <p>3. If the functional currency is the currency of a hyperinflationary economy, an entity must adopt a stable currency (such as the functional currency of its parent) as its functional currency.</p> <p>A highly inflationary economy is one that has cumulative inflation of approximately 100% or more over a 3-year period.</p> <p>4. The presentation currency is US dollar.</p>

**EXHIBIT 3**  
**QUALITATIVE CHARACTERISTICS OF**  
**DECISION-USEFUL FINANCIAL INFORMATION**

**AASB Framework**

24. Qualitative characteristics are the attributes that make the information provided in financial reports useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability

**Comparability**

39. Users must be able to compare the financial reports of an entity through time in order to identify trends in its financial position and performance. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities.

40. An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial report, any changes in those policies and the effects of such changes. Compliance with Australian Accounting Standards, including the disclosure of the accounting policies used by the entity, helps to achieve comparability.

**IASB/FASB Joint Conceptual Framework Project**

Comparability has sometimes been confused with uniformity. For information to be comparable, like things must look alike and different things must look different. An overemphasis on uniformity, for example, requiring all entities to use the same assumptions on economic factors such as the expected future dividend rate on their shares as inputs to a valuation model, may reduce comparability by making unlike things look alike.

**EXHIBIT 4**  
**SELECTED U.S. OIL AND GAS COMPANIES AND THEIR FUNCTIONAL CURRENCIES**

<b>Company</b>	<b>F.C</b>	<b>Foreign currency disclosures in the notes to the financial statements</b>
Apache	US \$	The U.S. dollar has been determined to be the functional currency for each subsidiary. The functional currency is determined country-by-country based on relevant facts and circumstances of the cash flows, commodity-pricing environment, and financing arrangements in each country.
Ashland	LC	Operations outside the U.S. are measured using the local currency as the functional currency. Upon consolidation, the results of operations of the subsidiaries and affiliates whose functional currency is other than the U.S. dollar are translated into U.S. dollars. Adjustments to translate assets and liabilities into U.S. dollars are recorded as a component of total comprehensive income.
Baker Hughes	LC	The majority of the foreign subsidiaries have designated the local currency as their functional currency and, as such, gains and losses resulting from balance sheet transaction of foreign operations are included as other comprehensive loss. For those foreign subsidiaries that have designated the U.S. Dollar as the functional currency, gains and losses resulting from balance sheet transaction of foreign operations are also included in SG&A expense in the consolidated statements.
BJ Services	US \$	The Company's functional currency is primarily the U.S. dollar. Gains and losses resulting from financial statement translation of foreign operations where a foreign currency is the functional currency are included as a separate component of stockholders' equity. The Company's operations in Canada and Hungary use their respective local currencies as the functional currency.

Chevron	US \$	The U.S. dollar is the functional currency for substantially all of the company's consolidated operations and those of its equity affiliates. For those operations, all gains and losses from currency translations are currently included in income. The cumulative translation effects for those few entities, both consolidated and affiliated, using functional currencies other than the U.S. dollar are included in the currency translation adjustment in "Stockholders' equity."
Conoco Phillips	LC	Adjustments resulting from the process of translating foreign functional currency financial statements into U.S. dollars are included in accumulated other comprehensive income/loss in common stockholders' equity. Foreign currency transaction gains and losses are included in current earnings. Most of our foreign operations use their local currency as the functional currency.
Exxon Mobil	LC	The "functional currency" for translating the accounts of the majority of Downstream and Chemical operations outside the U.S. is the local currency. Local currency is also used for Upstream operations that are relatively self-contained and integrated with a particular country. The U.S. dollar is used for operations in highly inflationary economies and certain other countries.
Murphy Oil	LC, US \$	Local currency is the functional currency used for recording operations in Canada and Spain and for refining and marketing activities in the United Kingdom. The U.S. dollar is the functional currency used to record all other operations.
Pioneer Natural Resources	US \$	The U.S. dollar is the functional currency for all international operations except Canada.

#### EXHIBIT 5 OBJECTIVES OF TRANSLATION

##### **IFRS 21 and AASB 121**

The objective is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

##### **FASB 52**

The translation of the financial statements of each component entity of an enterprise should accomplish the following objectives:

1. Provide information that is generally compatible with the expected economic effects of a rate change on an enterprise's cash flows and equity.
2. Reflect in consolidated statements the financial results and relationships of the individual consolidated entities as measured in their functional currencies in conformity with U.S. GAAP.

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