Advanced Business Manager Pty Ltd

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Support Bulletin # 104
Foreign Currency Transactions

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Transaction Process
When you process a transaction in ABM to a foreign customer or from a foreign supplier then the amount in foreign currency is placed in ForeignGross,ForeignTax and Foreign Net. The amount posted to LocalGross,LocalTax and LocalNet is the foreign amount divided by the exchange rate chosen. The exchange rate used for the transaction is stored in the field ExchangeRate.
The following is an example of the entry in the Transheaders table for this transaction

Process Purchase invoice for US$ 600 exchange rate 0.60

Tran Type	Ledger Type	Local Gross	Hedge Method	Local Net	Foreign Gross	Foreign Net	Exchange Rate
SX	Supplier	-1000	V	-1000	-600	-600	0.60
LA	Creditors Control	-1000	N	-1000	-1000	-1000	1.00
LA	P&L Account	1000	N	1000	1000	1000	1.00

Hedge Method

The hedge method determines if the transaction is to be revalued when the exchange rate is changed. The hedge methods are as follows:
V = Variable – the transaction will be revalued when exchange rates are changed
H = Hedged – the transaction will always be valued at the rate it was processed at and no revaluation will take place.
N = Not Applicable – these are transactions that are not subject to any revaluation. Such transactions are ledger control postings.

Exchange Rate
The exchange rate that will be used for a foreign currency transaction is the rate stored in lCurrencies table (as displayed in the Currencies section) unless the user decides to change the rate at the time of processing the transaction. The rate can be changed by selecting “Options“ within the transaction screen and selecting “Change Exchange Rate”

Revaluation of Exchange Rates

When the exchange rate is changed then ABM will look at the outstanding transactions (unpaid transactions) and calculate a potential gain or loss on that transaction. The potential gain or loss is stored in the field Unrealised. The postings relating to the original transaction do not change. Therefore the change in the transheader in relation to the above transaction if the rate changes to 0.5 is as follows.

Therefore, if the exchange rate on the above transaction is changed then Transheaders will have the following entry.

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Change exchange rate from 0.60 to 0.50

Tran Type	Ledger Type	Local Gross	Hedge Method	Local Net	Foreign Gross	Foreign Net	Exchange Rate	Unrealised
SX	Supplier	-1000	V	-1000	-600	-600	0.60	-200
LA	Unrealised Gain/Loss	200	N	200	200	200	1.00	0
LA	Creditors Control	-200	N	-200	-200	-200	1.00	0

The change in the exchange rate from 0.60 to 0.50 results in a loss of $ 200. This is because it will cost more to pay the supplier for this invoice. Therefore, if we pay the supplier at this rate we will have to take $ 1200 out of the bank and therefore a provision is made for this potential loss.

The calculation

Note: The value of the unrealised field can be verified by using the formula (ForeignNet +ForeignOffset)/Current Exchange Rate – LocalNet or alternatively using the formula

LocalNet+LocalOffset+Unrealised = (ForeignNet+ForeignOffset)/Current Exchange Rate

The posting would be	DR	CR
Unrealised Gain/Loss Account	200.00	
Creditors Control		200.00

Payment of Transaction

Payment of Invoice where the hedge method is Variable

When the transaction is paid the unrealised gain together with any additional gain/loss is transferred to the realised account and the amount stored in the field Realised. Therefore if the above payment was made at the exchange rate of 0.55 then the AU$ amount would be 1090.91 The total loss in this instance is $ 90.91 (we anticipated a loss of $ 200 due to the last change in exchange rate therefore the loss is now reduced to $ 90.91 since the exchange rate has improved.)

The postings will be as follows

	DR	CR
Creditors Control	1,200.00	
Unrealised gain/loss account		200.00
Bank Account		1,090.91
Realised gain/loss account	90.91	

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1,290.91 1,290.91

Note that the debit to the Creditors Control is $ 1,200.00 and not $ 1000 the reason is that the balance due to the supplier in local currency terms reflected the amount due since the last change in the exchange rate (US$ 600 / 0.5 = AU$ 1,200.00). The credit to the unrealised account is the amount we have already provided as the anticipated loss on this transaction.

The supplier transaction will now appear in transheaders as follows

Tran Type	Ledger Type	Local Gross	Hedge Method	Local Net	Foreign Gross	Foreign Net	Exch Rate	Un realised	Realised
SX	Supplier	-1000	V	-1000	-600	-600	0.60	0	-90.91

Note: LocalNet+Realised = the total amount paid in local currency.

Payment processed where Hedge method is Hedged.

Where a transaction is hedged (Invoice set to Fixed Rate) it is normal that such a payment is made against a forward contract and therefore the payment amount will be the same as the amount converted at time of entering the transaction. In this case there will ne no change to the exchange rate and no variation will take place.

Payment processed with mixture of Hedged and Variable transactions.

If a payment is processed and invoices selected are a mixture of hedged and variable then the converted amount of the hedged transaction will be deducted from the total payment and the remaining amount will be applied against the variable transactions.

Transaction Processed where the exchange rate is changed at the time of processing.

When processing a transaction and the user changes the exchange rate for that transaction (CTRL+R) then the transaction will be processed using the exchange rate entered but an immediate revaluation will also take place to reflect the difference between what the value at the current exchange rate and the rate entered. The reason for this is that the transaction needs to be shown at the current exchange rate as that is the value that will be shown in the Age Balance Report and reflects the expected amount to be paid to that supplier. If the rate was hedged then no revaluation would take place.

Therefore, if the transaction for $ 600 was processed at 0.50 and the current exchange rate is 0.60 then the entry in Transheaders would be

Tran Type	Ledger Type	Local Gross	Hedge Method	Local Net	Foreign Gross	Foreign Net	Exchange Rate	Unrealised
SX	Supplier	-1200	V	-1200	-600	-600	0.50	200
LA	Creditors Control	-1000	N	-1000	-1000	-1000	1.00	0
LA	P&L Account	1200	N	1200	1200	1200	1.00	0
LA	Unrealised	-200	N	-200	-200	-200	1.00	0

	Gain/Loss							

Note: this is a gain because we processed the transaction at a rate of 0.50 which would be converted to local cost of $ 1200. However, if we pay this transaction now at the current exchange rate we would only pay $ 1000.

Crediting an Invoice.

If an invoice is credited (supplier/customer invoice) then the exchange rate to be used is the same exchange rate used on the initial invoice. This is to ensure that the transaction is reversed for the same amount that was processed initially. Any unrealised gains or losses will be reversed. If the invoice has already been paid then the invoice will become over allocated (awaiting a refund or other method of credit) therefore in this case a calculation needs to be made for the unrealised value for that transaction. This transaction will become outstanding and therefore the same rules will apply for revaluing all outstanding transactions

LocalNet+LocalOffset/Current Exchange Rate

History Of Exchange Rate Changes
A history of changes in exchange rate is recorded in the table LCurrHistory. Therefore, if the exchange rate for Euro is changed from 0.60 to 0.50

Unique ID	Country Code	EntryDate Time	Entry User	OldBuy Rate	OldSell Rate	NewBuyRate	NewSellRate	Reference	Accounting Date	BatchNumber
1	0	Time rate changed	1	0.7	0.7	0.6	0.6	Chg1		1234
2	0		1	0.6	0.6	0.5	0.5	Chg2		1235

Note: when you run the Age Balance Report AS AT it will look at this table for the exchange rate in use at the AS AT date.

Record of Transaction Value changes when the exchange rate is changed

When an exchange rate is changed, then all transactions which have the value Outstanding equal to True (ForeignNet+ForeignOffset <> zero.) will be revalued using the new exchange rate. Each transaction changed will be entered in the table TransCurrAdj.

The entry in this table will be as follows

AdjustmnetId – id number for the transaction
TransactionId – the transactionid for the transaction being revalued
NewExchageRate – the newly set exchange rate or the exchange rate used for the transaction causing the change (payment)
Unreaslisedchange – the change in the value of the unrealised field (in the example above of the purchase invoice the value would be -200)
RealisedChange - the change in the value of the Relaised Field (in the payment above this will be -90.91
BatchNumber – the batch number relating to postings for the change in the transaction value
TrnsactionDate – the date the transaction was changed

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UnrealisedBefore – the value that is being replaced in the unrealised field.
RealisedBefore - the value that is being replaced in the realised field.
AdjustmentType = the type of adjustment (R = Revaluation due to exchange rate change) (T= a change due to a transaction being processed e.g. payment)

The entry in Transcurradj in relation to the process of the purchase invoice and the subsequent change in the exchange rate is shown below.

Adjustment ID	TransactionID	New Exchange Rate	Unrealised Change	Realised Change	Description	Batch Number	Transaction Date	Unrealised Before	Realised Before	Adjustment Type
1	SXPI00198<	0.5	-200.00	0.00	€ rate change to .5	1245		0.00	0.00	R
2	SXPI00198<	0.5499995	200.00	-90.91	Payment	1247		-200.00	0.00	T