INTRODUCTION OF THE EURO

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Abstract: SIC 7 addresses how the introduction of the Euro, resulting from the European Economic and Monetary Union (EMU), affects the application of IAS 21. SIC 7 states that the requirements of IAS 21 should be strictly applied when a country joins the EU's Economic and Monetary Union. The effects of the euro depends on the particular circumstances of a society and its environment.

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1. INTRODUCTION

This Interpretation deals with how it performs this introducing the euro resulting from the monetary union, and the way that the single currency affect the application of IAS 21 The Effects of Changes courses exchange.

IAS 7 states that the requirements of IAS 21 should be strictly applied when a country joins the EU Economic and Monetary Union. From January 1, 1999, Economic and Monetary Union (EMU) requires euro to be an independent currency and the conversion rates between the euro and currencies participating countries will be irrevocably fixed, ie, as of this date will be eliminated the risk of exchange rate differences.

Requirements of IAS 21 in terms of conversion operations and situations foreign financial entities, should be strictly applied in case of changing. The same reasoning goes for irrevocably fixing the exchange rates of other countries will join EMU at later stages. This means in particular that: (A). currency monetary assets and liabilities from transactions should continue to achieve currency in which financial statements are presented using closing exchange rates. Differences resulting from the exchange would be recognized immediately as income or expense, except related to companies should continue to apply the previous accounting policies that special case of exchange rate differences related to exchange contracts rate, used to reduce risk or foreign exchange operations future commitments (protection). (B) differences in cumulative currency translation related to the financial statements of foreign entities, which are part of the held by the parent, should remain classified as equity, and should be recognized as income or expense to expropriate foreign entity net investment in question. (C) exchange differences arising on the translation of liabilities denominated in currencies of participating countries, should not be included in the carrying amount of related assets.

2. Basis for Conclusions:

Section 11 (a) of IAS 21 requires foreign currency monetary products to be accounted for using the closing rate at balance sheet date. In accordance with paragraph 15 of IAS 21, exchange differences arising from conversion of monetary items should be recognized as income or expenses in the period in which they occur. Effective start of EMU by date balance does not modify the application of these requirements on the closing date, because, in paragraph 28 of IAS 10, has no relevance to the fact that the rate exchange at the balance sheet can fluctuate after the closing date balance.

In paragraph 14 of IAS 21 provides that this rule does not deal accounting for hedging transactions, except very specific cases. Paragraph 42 of IAS 8, would allow a change accounting policy only when it aims at obtaining a presentation appropriate events and transactions company. Effective start of EMU, by itself, does not justify a change in accounting policy by the company in for coverage sooner, because the changeover does not affect the principles behind the economic base of such coverage.

The changeover did not change in accounting policy, which gains and losses from financial instruments designated as hedges in advance, apart and compenseza with income and expenses in future periods.

That the cumulative value of foreign exchange differences will be fixed in EMU does not justify immediate recognition as income or expense, literal wording of paragraph 37 of IAS 21 clearly prevents this treatment.

In accordance with the allowed alternative treatment in paragraph 21 of IAS 21, exchange differences arising from the strong devaluation against foreign currency, they can be included in certain very limited circumstances regarding recognition of the asset valoarii to which acts.

Those circumstances do not apply to the participating currencies euro area since the devaluation hypothesis is incompatible with strong necessary stability required in the process of accession.

Therefore:

• foreign currency assets and monetary liabilities arising from transactions continue to be translated into functional currency at the closing. Any differences in exchange results are recognized as income or expense immediately, except that an entity continues to apply its existing accounting policy for exchange gains and losses on hedges of risk rate of a forecast transaction.

• cumulative exchange differences relating to the translation situations foreign financial operations continue to be classified as equity and are recognized as income or expense only net investment in the economic failure of alienation and

• exchange differences arising on the translation of liabilities denominated in participating currencies not included in the carrying amount of assets related.

The effects of the euro depends on the particular circumstances of a society and its environment.

Some companies do not use foreign currencies in their operations. In consequence, these companies were never required to perform currency translation before, because it was simply necessary.

However, with the euro, these companies will have to translate their accounts in euro units. This translation is not a revaluation of assets, Equity and liabilities of these companies. These elements are expressed a new currency, in the same way a translation is made convenience. Translation procedure to be followed is relatively easy. It takes only that all assets, capital and liabilities to be translated into euros using the rate fixed conversion so will not result in any difference of course after adoption single currency. Companies that have relationships in foreign currencies are companies that runs directly part of their activities in foreign currencies, or with an interest in a transaction foreign (branches or subsidiaries) if these companies need to perform a translation of their annual accounts in foreign currency and / or accounts consolidated.

For companies with a financial year does not coincide with the calendar year,the euro will happen sometime during their financial year.

Post balance sheet events.

For companies to end their financial year which ends on 31 December, but a few months earlier, the euro is a considering the event occurs on balance, will have an impact the annual and consolidated accounts for the financial year.

Companies are obliged by Article 46 (2) (a) of Fourth Directive to give an indication of any major development of took place at the end of the year. For example, a company that ends financial year to September 30, 1998, should reveal the effects of transition the euro in its financial statements for this period, if they are imposed after the announcement of the fixed exchange rate.

The effects of the euro are limited companies participating in the Member States. Starting January 1, 1999 (beginning of Phase B) companies with cross-border transactions, intra-EU, will be prepared the transactions in euro units. Furthermore, these companies may experience an indirect effect of introduction of the euro through their subsidiaries in Member States participating.

5. Conclusions

Even if the euro remains questionable but have permanent changes in European accounting systems. The idea of harmonizing accounting system does not stop.

In order to achieve harmonization of accounting introduced new accounting standards or existing accounting standards are constantly reviewed to be useful even if the economy is always changing.

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