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INSIGHTS

ACCOUNTING & TECHNOLOGY

IAS 21 foreign operations and translation in Cambodia

How CIFRS IAS 21 translates a foreign subsidiary or branch into the group's presentation currency, where the exchange differences go, and how that differs from the USD/KHR functional-currency question.



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HOW DOES A CAMBODIAN GROUP TRANSLATE A FOREIGN SUBSIDIARY UNDER IAS 21?

IAS 21 requires each entity to determine its functional currency, the currency of the primary economic environment in which it operates, and to translate foreign currency transactions into that currency. When a foreign operation is translated into the group's presentation currency, assets and liabilities are translated at the closing rate, income and expenses at the exchange rates at the transaction dates (an average rate is often used if rates do not fluctuate significantly), and the resulting exchange differences are recognised in other comprehensive income and accumulated in a translation reserve. On disposal of the foreign operation, the cumulative translation difference is reclassified to profit or loss. CIFRS for SMEs Section 30 applies the same translation model with simpler guidance.

IN SHORT

- Functional currency is the currency of the primary economic environment, not simply the currency of the parent or the country of incorporation.
- Foreign currency transactions are translated at the spot rate on the transaction date; monetary items are retranslated at the closing rate.
- A foreign operation's assets and liabilities are translated at the closing rate, income and expenses at the transaction-date or average rate.
- Translation differences go to OCI and a translation reserve; on disposal, the cumulative difference is recycled to profit or loss.
- CIFRS for SMEs Section 30 applies the same model; confirm the edition with the auditor.

Functional currency: the primary economic environment

The functional currency is the currency of the primary economic environment in which the entity operates. It is the currency that mainly influences the sales prices of goods and services and the costs of labour, materials and other inputs, and the currency in which the entity's financing and operating cash flows are denominated. The country of incorporation, the location of the parent or the currency of the share capital is not decisive.

A Cambodian subsidiary of a US parent may have USD as its functional currency if it sells, prices and finances in USD, or KHR if its costs and sales are mainly in riel. A foreign branch may have a different functional currency from its head office. The entity should document the indicators and review the functional currency when the facts change.

A change in functional currency is applied prospectively from the date of change, not retrospectively. The entity translates all items into the new functional currency at the exchange rate at the date of change and uses the resulting amounts as the new carrying amounts.

Foreign currency transactions

A foreign currency transaction is a transaction denominated in a currency other than the functional currency. It is translated into the functional currency at the spot exchange rate on the transaction date. A monetary item, such as cash, a receivable or a payable, is retranslated at the closing rate, and the exchange difference is recognised in profit or loss.

A non-monetary item measured at historical cost, such as property, plant and equipment or inventory, is translated at the rate on the transaction date and is not retranslated. A non-monetary item measured at fair value is translated at the rate on the date the fair value was measured. The classification of the item as monetary or non-monetary matters.

A foreign currency loan can create a large exchange difference when the riel or the dollar moves. The difference is recognised in profit or loss unless the loan is a hedge of a net investment in a foreign operation, in which case the effective portion is recognised in OCI.

TRANSLATION OF TRANSACTIONS AND BALANCES

Item	Rate	Difference
Revenue and expenses	Spot rate at the transaction date	Profit or loss
Monetary assets and liabilities	Closing rate	Profit or loss
Non-monetary at historical cost	Rate at the transaction date	No retranslation
Non-monetary at fair value	Rate at the fair value date	Profit or loss / OCI
Net investment hedge	Closing rate	Effective portion in OCI

Translating a foreign operation

When a foreign operation is translated into the group's presentation currency, the assets and liabilities are translated at the closing rate, income and expenses at the exchange rates at the transaction dates, and the resulting exchange differences are recognised in other comprehensive income. An average rate for the period is often used for income and expenses if the exchange rates do not fluctuate significantly.

The exchange differences are accumulated in a separate component of equity, often called the translation reserve. On consolidation, the reserve is attributed to the parent and the non-controlling interest. The translation does not change the foreign operation's functional-currency records; it is a presentation translation.

If the foreign operation is in a hyperinflationary economy, its financial statements are first restated under IAS 29 and then translated at the closing rate. The restatement and the translation are separate steps, and the resulting differences are recognised in accordance with the standards.

> **A translation reserve is not a cash gain**
>
> The exchange difference in OCI is an accounting translation, not a cash movement. It becomes a realised gain or loss only when the foreign operation is disposed of or partially disposed of.

Disposal and partial disposal

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in OCI is reclassified from equity to profit or loss as a reclassification adjustment. The gain or loss on disposal includes the recycled translation difference. A partial disposal is treated proportionately: the relevant share of the cumulative difference is recycled.

A disposal can be a sale of shares, a liquidation, a repayment of capital or the loss of control. The substance of the transaction determines whether it is a disposal. A change in ownership that does not lose control is an equity transaction and does not trigger recycling.

The tax treatment of the disposal is separate. The accounting gain or loss, the recycled translation difference and the tax gain or loss may differ; the deferred tax calculation should reflect the temporary differences.

CIFRS for SMEs Section 30

CIFRS for SMEs Section 30 Foreign Currency Translation applies the same functional-currency and translation model with simpler guidance and disclosures. The translation of a foreign operation, the translation reserve and the disposal recycling are consistent with IAS 21.

The National Accounting Council's adoption determines the edition in Cambodia. Confirm the edition with the auditor before relying on a paragraph number.

Cambodian practice

Cambodian groups often have a USD functional currency, a KHR presentation currency for the ACAR filing, and a foreign parent or subsidiary with a different functional currency. The translation reserve, the intercompany balances and the consolidation entries should be documented in a group translation schedule.

A foreign currency loan, a shareholder advance or an intercompany balance can create exchange differences that affect profit or loss or OCI. The entity should identify whether the balance is monetary, whether it is part of a net investment, and whether a hedge exists.

The auditor should test the functional-currency assessment, the rates used, the translation reserve, the consolidation entries and the recycling on disposal. The tax reconciliation should separately identify the exchange differences that are taxable or deductible.

- Functional-currency assessment and documentation.
- Closing, average and transaction-date rates with sources.
- Translation reserve movement and NCI allocation.
- Intercompany and net investment balances.
- Disposal recycling and tax reconciliation.

Key facts

How this article is checked

Figures were verified against the sources listed below in November 2026 and are re-checked each January or when the rule changes. Written by Liv Bonito, Co-founder & Managing Director. General information, not advice on your situation: for that, talk to a partner.

QUESTIONS

Questions people ask

Can a Cambodian company use USD as its functional currency?

Yes, if USD is the currency of the primary economic environment in which it operates, based on its sales, costs, financing and cash flows. The choice is not free; the entity documents the indicators and reviews them when the facts change.

Where do translation differences go?

Exchange differences on translating a foreign operation are recognised in other comprehensive income and accumulated in a translation reserve. Differences on foreign currency transactions and monetary balances are recognised in profit or loss, unless they qualify as a net investment hedge.

What happens on disposal of a foreign subsidiary?

The cumulative translation difference in equity is reclassified to profit or loss as part of the gain or loss on disposal. A partial disposal recycles the relevant proportion.

Does the tax treatment follow the translation?

No. The accounting translation and the tax treatment are separate. The taxable gain or loss, the exchange differences and the deferred tax should be calculated on the tax rules and reconciled to the accounting result.

SOURCES

Where the rules come from

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02 IFRS for SMEs Accounting Standard, Section 30 Foreign Currency Translation (https://www.ifrs.org/issued-standards/ifrs-for-smes/) — IFRS Foundation

03 IAS 29 Financial Reporting in Hyperinflationary Economies — IFRS Foundation

04 IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures — IFRS Foundation

05 Law on Accounting and Auditing (Royal Kram NS/RKM/0416/006, 11 April 2016): Khmer and Khmer Riel presentation — Kingdom of Cambodia