Foreign Currency Transactions and Translation

1. **Foreign Currency Transactions**
    - Transactions denominated in a currency other than the entity's functional currency (e.g., a Kenyan firm buying equipment priced in USD).
2. **Initial Recognition**
    - Recorded at the spot exchange rate on the transaction date.
3. **Subsequent Measurement**
    - Monetary items (cash, receivables, payables) are retranslated at each reporting date using the closing rate; exchange differences go to profit or loss.
    - Non-monetary items measured at historical cost are not retranslated.
4. **Foreign Currency Translation (for subsidiaries)**
    - Assets and liabilities translated at the closing rate.
    - Income and expenses translated at rates on transaction dates (or average rate as an approximation).
    - Resulting differences are recognized in other comprehensive income (OCI), not profit or loss.
5. **Functional vs. Presentation Currency**
    - Functional currency is the currency of the primary economic environment; presentation currency is the currency used in the financial statements, which may differ.
6. **Why It Matters**
    - Currency volatility can significantly affect reported profits, making accurate translation essential for multinational and import/export businesses.