

THE IMPORTANCE OF CHOOSING THE FUNCTIONAL CURRENCY IN TRANSLATING THE FINANCIAL STATEMENTS OF FOREIGN UNITS - THE CASE STUDY OF SCHLUMBERGER, ALGERIA

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Abstract:

ملخص:

The most important accounting problems that affect the accounting practice at the level of multinational companies is the preparation of financial statements for all branches and foreign units in a currency that reflects the majority of its economic activity, which is the functional currency, which made the foreign units in front of the problem of choosing the functional currency and the justification for this choice to prepare financial statements directed to the company.

أن أهم المشاكل المحاسبية التي تؤثر على الممارسة المحاسبية على مستوى الشركات متعددة الجنسيات، يكمن في إعداد البيانات المالية لجميع الفروع والوحدات الأجنبية بعمله الذي يعكس معظم نشاطه الاقتصادي، وهو العملة الوظيفية، مما جعل هذه الوحدات الأجنبية أمام مشكلة اختيار العملة الوظيفية وتبرير هذا الاختيار لإعداد البيانات المالية الموجهة إلى الشركة.

Introduction

The process of providing information which represent the output of the accounting system in the form of financial statements faced some obstacles due to different accounting systems as well as accounting practice, which made it difficult to give a unified reading of the financial statements, especially for multinational corporations whose branches and their affiliates are subject for different systems controlled by different environmental and cultural conditions, this is what led to the difficulty of sharing accounting and financial information, which helps users of financial statements to make their economic decisions more accurately and more rationally.

The consolidation of those financial statements, which were prepared by branches in accordance with different local accounting policies and in different currencies, so that the financial position and the business results of the parent company can be reversed, is by making many amendments to those statements and translating them into the currency and language of the country where the parent company is located to prepare consolidated financial statements for the whole group as provided in International Accounting Standards.

We find that the International Accounting Standards (IAS 21), "Effects of Changes in Foreign Exchanges' Rates", provide that the section should prepare its financial statements and send it to the parent company in the currency prevailing in most of its economic activities that is called the functional currency, which reflects most of the branch's cash flows, in order to reduce the volume of the operations concerned with the translation.

This concern is one of the most important accounting problems that affect the accounting practice at the level of multinational companies, which are the appropriate choice of the functional currency and the justified determinants of such a choice in order to prepare the financial statements for consolidation.

Shlumberger Company is among the most important international companies that are active in the field of oil and gas. Its branches and subsidiaries suffer from the problem of determining the functional currency to prepare their financial statements for consolidation, especially at the level of economies that suffer from significant inflationary effects and its local currency experiences severe and frequent fluctuations. The significance of the study is that it is necessary to know the most important determinants that help multinational companies to choose the functional currency used in the preparation of their financial statements for consolidation.

In order to understand all aspects of the subject, we have decided to divide this work into four axes:

The first axis: The theoretical framework for the translation of the financial statements of foreign units

1.Generalities about the consolidated financial statements:

A. Definition of financial statements:

The financial statements are a structural presentation of the Company's financial position and performance during a certain period; it aims to provide information about the company's performance, financial position and cash flows, so that they are suitable for different categories of users to make economic decisions rational. The financial statements are prepared under the supervision of the Company's directors; they are issued within a maximum period of six months after the closing date of the fiscal year and they should be distinct from other information.

During preparing financial statements, the company takes into account the application of the accounting system and accounting standards; it also undertakes to enclose with these lists the attached clarifications including all data that the accounting standards provide.¹ Those clarifications are an integral part of these lists.

According to the Algerian financial accounting system, each company is obliged to prepare the final lists at the end of each accounting cycle that include: budget, results calculations table, cash flow schedule, table of changes in private funds, appendices.

B - The importance of preparing consolidated financial statements:

The consolidated financial statements are actual group-level statements that are led by the parent company which dominates one or more affiliates, as they all represent one economic unit, but each one of them is considered an independent accounting unit.

A parent company that is in turn owned by another company may not always present consolidated financial statements since such data may not be required from the parent company. Then, the consolidated financial statements of the Parent Company also better meet the needs of the other users of the financial statements. In some countries, the parent company is exempted from presenting the consolidated financial statements if it is in fact wholly owned by another company, provided that it is approved by the minority shareholders. That is usually considered semi-complete when the parent company owns 90% or more of the total voting rights.²

The control is presumed by the parent company directly or indirectly through subsidiaries, when it owns more than half of the total voting rights of the subsidiary, except for certain cases in which it appears that such ownership does not represent a control. The latter is also realized when the parent company owns half of the total voting rights or less in the enterprise when:

- The Control of more than half of the total voting rights by virtue of the agreement with other investors.
- The authority to control the financial and operating policies of the enterprise by law or agreement.
- The power to appoint or isolate the majority of the members of the Board of Directors or any other supervisory body.
- The power to control the majority of votes in the meetings of the Board of Directors or any other regulatory body that is equivalent.

c- Accounting Disclosures in the Consolidated Financial Statements:

The consolidated financial statements are used in accounting disclosure of available resources, liabilities and results of operations of a single accounting unit in which a group of companies are associated with each other in their normal economic activities to achieve three main objectives:

- Incorporation of assets balances, liabilities, revenues and expenses of the Holding Company and its subsidiaries.
- Excluding profits or losses resulting from transactions between them.
- Settlement of balances of corresponding accounts between them.
- Accounting disclosure of balances in consolidated financial statements including the statement of financial position, statement of income, retained earnings and changes in the financial position.

2- Translation of financial statements prepared in functional currency

A- Importance of Translating Financial Statements:

The need for the financial statements of foreign branches or subsidiaries to be translated arose from the emergence of multinationals. It is natural for a parent or holding company to have branches

in many parts of the world or to have shares of varying proportions in foreign companies with a parent company dependency.

In fact, the preparation of the financial statements by subsidiaries of the parent company does not meet the requirements of the users of the external financial statements who are: the investors, suppliers, lenders, government authorities and even employees of the parent company; Therefore, the need for consolidation of these financial statements was required which have already been prepared in accordance with different local accounting policies and in different currencies in order to reflect the financial position and business results of the multinational company as a whole, by introducing several amendments to those lists and translating them into the currency and language of the country where the parent company is headquartered, in order to prepare the consolidated financial statements of the Group as a whole in accordance with International Accounting Standards³.

As mentioned above, The process of consolidating the monetary measurement unit is determined by transferring balances of the accounts of assets, liabilities, income and expenses in the financial statements expressed in a country's currency to the currency of another country, means the translation of financial statements prepared in foreign currency, bearing in mind that the translation process does not mean attempting to find and consolidate the current values of assets and liabilities expressed in foreign currencies. It is also not intended to carry out an effective conversion between foreign currencies as it is a process that aims to change the monetary unit from the foreign currency used in the preparation of the financial statements of the foreign branches or subsidiaries to the reporting currency used in the preparation of the parent company's financial statements.

Due to the instability of the currencies, the translation of the financial statements has not been easy, and it has been reflected in the size of the accounting problems facing the translation of these financial statements.

B - Objectives of the translation of financial statements:

The translation of the financial statements requires that we change the unit of measurement in these lists from the foreign currency to the currency used by the parent company. In this sense, it is

possible to say that the translation process of the financial statements aims at the following:⁴

- To achieve consistency in the unit of measurement, by expressing the financial statements of the parent company and its subsidiaries in the same unit of measurement.
- To achieve the possibility of consolidation of the data or accounting information of the parent company and its operations and branches abroad.
- To facilitate internal comparison at the level of the parent company's operations and branches, but to compare at a macro level between the parent company and the industry to which it belongs.
- Achieving financial accounting practice with modern business environment requirements, especially the environment that has become internationalized, globalized or e-commerce.

The American Financial Accounting Standards Board has identified in Standard No. 25 the objectives of translating foreign financial statements which are:⁵

- Provide information that is generally consistent with the expected economic effects of the exchange rate variable on cash flows and property rights.
- The consolidated financial statements should reflect the results in foreign companies in accordance with the accepted accounting principles in the country of the parent company.

C. Reasons for translation of foreign operations:

The need to translate foreign operations arose when multinationals were established, as it is natural for a parent company to have branches in many parts of the world.

Therefore, the parent company, or the one which has business out of its original home- that is, active in international trade —is not able to prepare consolidated financial statements of the Group unless its accounts and its subsidiary's accounts are expressed in one currency. That is because meaningful results cannot be obtained by combining multiple transactions for currencies as diverse as the US dollar with the Japanese yen or the euro.

There are many reasons for translating foreign currencies:

- How to record transactions in foreign currencies where transactions in foreign currency must be translated in the currency of the Company's consolidated financial statements and financial statements cannot be prepared from accounts in different currencies;

- Report on the activities of a branch or a subsidiary, as each of the parent company, the subsidiary or the branches are integrated into a single fabric; it is illogical that their accounts appear separate from each other; they must be integrated, so as to be able to present a fair and complete financial centre. In these cases, we need to translate the foreign currency into the parent company's currency. As subsidiaries are more independent due to their legal status, translation processes are therefore required for planning, evaluation, coordination and oversight;

- Report on the results of independent operations abroad, where there is a need to transfer and exchange accounting information between independent companies in one country for beneficiaries in another country, as a result of the expansion of international investment activities, and especially, this need arises when the company wishes to register its shares on a foreign exchange, when considering entering into a joint venture or when it wishes to communicate the results of its business and its financial position to foreign shareholders. Under all these circumstances, the Company can translate its financial statements in full from foreign currency to the main currency.

The second axis: Foundations and factors of determining the functional currency of foreign units

1- Definition of functional currency:

A functional currency is the currency in which an enterprise carries on the majority of its activities whether those activities are financial, operational or other, for example, if an American company has taken the seat of one of its branches in Algeria, which engaged in productive operations, but uses the Japanese yen instead of the Algerian dinar in the implementation of most of its work, such as the purchase of raw materials from outside Algeria and paid for by the yen and also sells its production outside Algeria in the Japanese yen, as it leases foreign labor and pays in the Japanese yen, too. In this case, the functional currency of this institution is the Japanese yen, while the local currency is the Algerian dinar. Although the institution does not deal with the Algerian dinar, only a small

percentage, it may be obliged - in accordance with Algerian law - to keep its accounting books in the Algerian currency. On the contrary, if that institution performs most of its operations in Algerian dinars, the Algerian currency becomes the functional currency; as a result, the functional currency corresponds to the local currency.

The main currency is the currency used in the preparation of the parent company's financial statements (the reporting currency) , For example, in the previous example we know that the American company, which has a branch in Algeria, prepares its financial statements in US dollars, and when preparing the consolidated financial statements, the parent company translates the financial statements of the branch it owns in Algeria from the local or functional currency into the principal currency of the parent company, the US dollar.

2- Factors determining the functional currency of the foreign unit:

There is no doubt that the determination of foreign currency is particularly important in the field of international accounting thought as it is the starting point for the translation process of the items included in the financial statements to be expressed in the currency of the report. Due to this importance, there are several indicators in the international accounting standards which can be used during the process of determining the functional currency of the foreign unit, especially if the currencies, it deals with them were multiplied, so it can rely on one or more of them:

a- Cash flow indicators:

- Foreign currency is used: If the cash flows relating to the assets and liabilities of the foreign unit are mainly denominated in a foreign currency and have no direct impact on the cash flows of the holding company.

- The currency of the report is used: If the cash flows relating to the assets and liabilities of the foreign unit have a direct short-term effect on the cash flows of the holding company⁶

b- Selling price indices:

- Foreign currency is used: If the selling prices of the foreign unit's products are not affected by changes in foreign exchange rates in the short term and the selling prices are determined according to the requirements of local competition and local government legislation.

- The currency of the report is used: If the prices of the sale of a foreign unit's products are affected by changes in foreign exchange rates in the short term when prices are determined in international competition or international prices

c- Selling Markets Indicators:

- Foreign currency is used: If there are domestic markets that allow the sale of foreign unit products, even though the unit may succeed in exporting a large quantity of its products to the world markets.

- The currency of the report is used: If most sales are located within the domestic markets of the country where the holding company is located and if sales contracts are concluded in the currency of the host country.

d- Expenditure indicators:

- Foreign currency is used: If the cost of the product or service provided by the foreign unit is a local cost, whether its main components are raw materials, labor costs or the costs of all other facilities, this concept is applied even if some of these elements are imported from abroad.

- The currency of the report is used: If the foreign unit obtains most of the cost elements from the state where the holding company is located and whether it is raw materials, labor or other facilities.

e- Financial indicators:

- Foreign currency is used: if the financing process in foreign currency is carried out domestically and the funds generated by the operations of the foreign unit are sufficient to settle all obligations, whether existing, regular or anticipated.

- The currency of the report is used: if the financing is mainly from a holding company or from a source dealing with the currency of the report, or when the funds generated by the operations of the foreign unit are not sufficient to pay all existing, regular or anticipated obligations without the need for additional funds from the holding company . If additional funds are provided by the holding company of the foreign unit for expansion, that is not a factor as long as the funds generated by the operations of the foreign unit are sufficient to repay that additional funding.

f- Indicators of the corresponding processes and mutual relations:

- Foreign currency is used: if the volume of the corresponding operations is weak and when there are no strong reciprocal relations between the operations of the foreign unit and the holding company, although the operations of the foreign unit may be dependent on some of the competitive advantages of the holding company such as patents and trademarks.

- The currency of the report is used: if the volume of the corresponding operations is significant and when there are strong reciprocal relations between the operations of the foreign unit and the holding company.

Based on the above, when determining the functional currency for the purpose of preparing the consolidated financial statements, we may encounter three different cases, as shown in the following figure (p.57).

According to the previous figure, we note that the translation of financial statements under FAS 52 takes the following two cases:

Case 1: Re-measuring the financial statements in foreign currency to their functional currency.

Case 2: Translation of the financial statements in the functional currency into the currency of the country of the parent company.

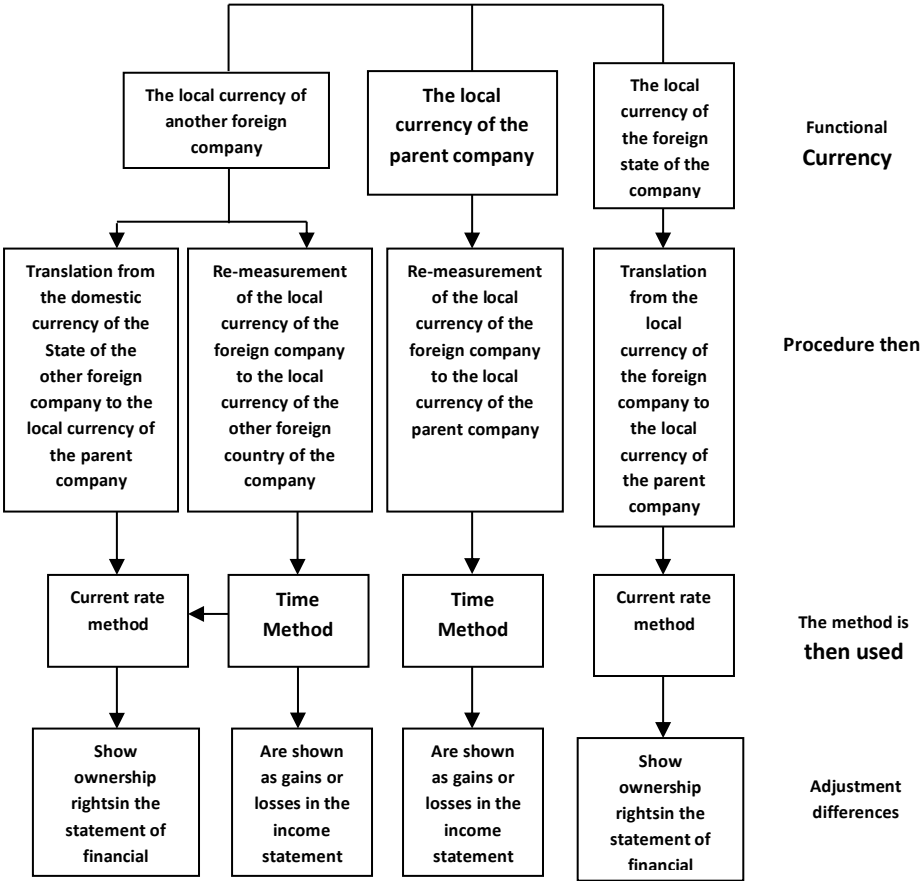
It is noted that the only case which requires operations of re-measuring and translating together is if the functional currency of the foreign company is the currency of a third foreign country, i.e. it is not the local currency of the country in which the foreign company operates or the currency of the parent company.

3- Exchange rate gains and losses:

The result of the instability of the exchange markets and the large fluctuations in exchange rates has been reflected in accounting, in general, and international accounting in particular. That was during the attempt to find accounting treatment, in order to maintain the financial position of the institution either through signing the international trade contracts at a certain date and to be paid or collected at a later date or through the process of translating the financial statements of subsidiaries or branches prepared in functional currency to the currency of the report (The parent

company's currency). That was the reason that pushed those interested in this accounting problem to issue the American Accounting Standard No. 52 of the US Financial Accounting Standards Board (IASB) in 1982, which was applied by multinational companies until the issuance of International Accounting Standard 21 (IAS 21) entitled "Impact of Changes in Foreign Exchange Rates", which introduces the accounting procedures to address the differences that arise on exchange rate fluctuations, and then gains and losses of exchange rate fluctuations can be limited to two issuers⁷

Figure 1: Three cases of translation of the financial statements with the aim to preparing the consolidated financial statements



Source: Ahmed Bassiouni Shehata, Kamal Eddin Dahrawi, Advanced Accounting, University House for Publishing and Distribution, Alexandria, 1999, p. 386

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- Transactions in foreign currency:

- Imports or exports which are denominated in foreign currency
- Lending or borrowing in foreign currencies

- Future exchange contracts (Futures)

- Translation of the financial statements of the foreign branches, where the values of the items in the functional currency are converted to their equivalent in the main currency.

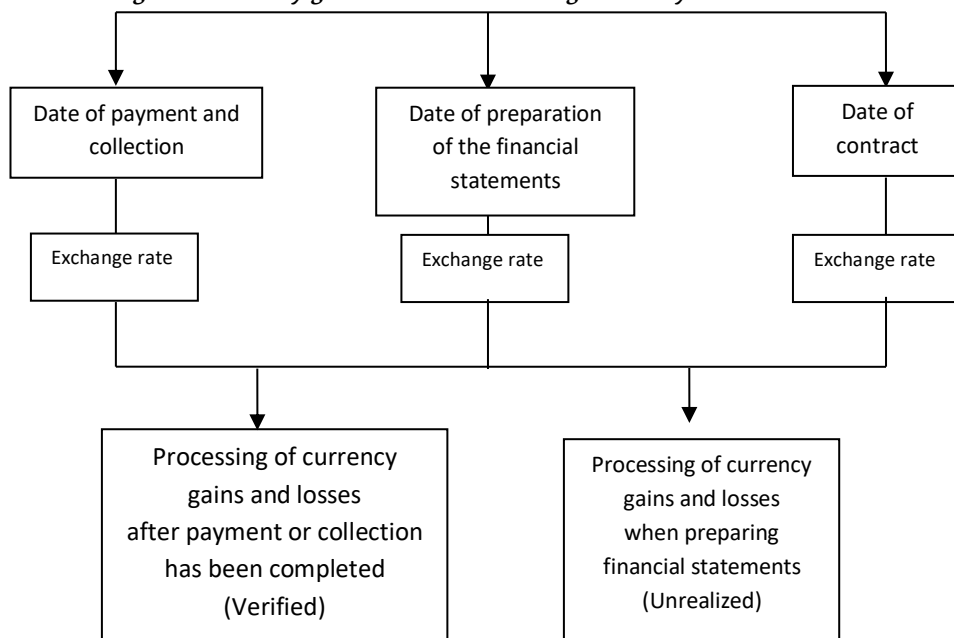
During the financial year, the Corporation carries out many transactions in foreign currencies that are accounted for through the following stages:

- Accounting for operations as they occur.
- Recording of foreign currency balances on dates subsequent to the date of preparation of the statement of financial position.
- Treatment of gains and losses arising from changes in exchange rates, whether in the preparation of the financial statements or at the end of the collection or cash payment process⁹
- Registration of special settlements by calculating debtors or creditors in foreign currency on their due dates.

As a result of changes in exchange rates, currency gains and losses are formed and which are realized or unrealized, so that we consider them realized when they actually occur and which result from exchange of currency against another currency, i.e. the existence of an actual transaction in which an actual exchange of currencies takes place and losses or gains are made. Concerning unrealized losses or gains, there is no exchange in the currency, where such gains or losses may be fictitious resulting from the translation of the foreign currency when the values in the balances of the subsidiaries' accounts and which are registered in the functional currency are translated into the main currency for the preparation of the consolidated financial statements.¹⁰

Currency gains and losses can be illustrated by the following figure:

Figure 2: Currency gains and losses on foreign currency transactions



Source: Amin El Sayed Ahmed Lutfi, "International Accounting and Multinational Companies, Alexandria University House 2004 pp. 70-71

Through this format, we note that there are three basic dates:

- The date of the transaction and its recording in the books: the date on which the exchange rate prevailing in that period is used.
- Date of budget preparation and closing of accounts result: the date on which the prices of transactions recorded in the first phase are adjusted to reflect the current exchange rate of the unfinished and unpaid operations, resulting in losses or gains between those dates.
- Expiration date of the transaction through payment or collection in foreign currency: On this date there are often gains and losses due to differences in exchange rates between the balance sheet date and the date of payment or collection.

Axis 3: Justifications for using an appropriate functional currency to prepare financial statements

1 - The appropriate choice of the accounting method for the translation of financial statements prepared in functional currency:

Accounting systems provide that different companies, institutions and organizations prepare their records, accounts and financial statements in the official language and local currency of the state in which it exercises its economic activities within its territorial borders to meet the requirements of all users of the data and accounting information in that country, while the financial statements that are returned to the head office of the parent company from its branches and foreign subsidiaries have to be rephrased and translated to be ready for the assembly process to prepare consolidated financial statements for the whole Group¹¹.

The continuous change in foreign exchange rates has been reflected in accounting thinking in its attempt to focus on the most appropriate accounting entries that should be followed in the process of translation and recording of reports and financial statements of branches and foreign subsidiaries, therefore, several accounting methods emerged and have been widely used by multinational companies in translation processes:¹²

- Current and non-current items method
- Monetary and non-monetary items method
- Temporary exchange rate method (time)
- Current exchange rate method

A- Current and non-current items method:

According to the degree of liquidity, the tabulation of budget items is guided as a basis to determine the appropriate exchange rate for translation. Accordingly, the current items (assets and liabilities) are translated at the current exchange rate at the balance sheet date (closing price), while the rest of the budget (non-current assets and liabilities) is translated according to the historical exchange rate. However, in this way, the application of the translated values of the budget

items does not reflect the real values of these items. As an example, the long-term loans item as a non-current item will be translated at the historical exchange rate to show a value that may differ significantly from the actual amount of the local currency, for example, if the subsidiary (US) had borrowed a long-term loan of 180 thousand euros when the exchange rate of 1 dollar was equivalent to 0.80 euros, this loan has been proved in the books of the company \$ 225 thousand dollars and when translated on the budget date where the price of the euro 0.70 euros for each dollar, it will be translated according to the historical price of \$ 225 thousand, at the same time, if the company wanted to pay by that date, it would need \$ 257.14 thousand dollars, which shows a big difference between the values

B. Monetary and non-monetary items method:

Liquid cash items are distinguished by their nature or by being convertible into liquid cash - denominated in a fixed number of cash units such as cash in the treasury and cash in the current account of the bank and liquid by nature, non-cash items or items that require more time and effort to convert them into liquid cash and may lose part of their real value due to the conversion process.¹³ In this method, the current exchange rates are used at the date of preparation of the financial statements for the translation of monetary items, while historical exchange rates, which were prevalent at the time of acquisition of assets or the emergence of obligations, are used in the translation of non-monetary items¹⁴.

c- Method of temporary exchange rate (time):

The time method depends on the measurement basis in translation, and this is in contrast to the monetary- non monetary methods which are based on classification and therefore does not change the characteristics of the measured item but only change the unit of measurement. The translation of the foreign balances is merely a recalculation of these items, not a change in value.

For example, an asset, which is measured according to the cost, is translated according to the historical exchange rate. As for another asset measured according to its replacement value, its translation is carried out at the current exchange rate regardless of its classification between a current or non-current asset or a cash or non-monetary asset¹⁵.

This method of translation is based on searching for the specific nature of all items in the financial statements and to determine whether it expresses a fixed monetary value, a collectible right or an obligation to be fulfilled in the future. Historical exchange rates are used to translate the first set of items reflecting fixed monetary values such as long-term assets (fixed), long-term financial investments, commodity inventory, long-term commitments, prepaid and due expenses income received in advance, while current exchange rates are used at the date of the preparation of the financial statements (closing prices) in the translation of the second and third groups of items that express collectible rights, obligations or future cash payments such as cash, customers, suppliers, notes receivable, payment, short-term financial investments -Deposits, stocks and bonds – and all current liabilities.¹⁶

d- Current exchange rate method:

This accounting method requires the use of the current exchange rate at the end of the financial year in the translation of all items in the statement of financial position except equity - the company's capital paid and retained earnings - where historical exchange rates prevailing at the time of creation, composition or addition of each item, are used in translating it.¹⁷

Table 1: Comparison of exchange rates used in different methods of translating financial statements of foreign units

	Current exchange rate method	Temporary exchange rate method	Current and non-current items method	Monetary and non-monetary items method
Cash	C	C	C	C
Debtors accounts	C	C	C	C
Short-term financial investments	C	C	C	C
Long-term financial investments	C	H	C	H
Commodity inventory	C	H	H	C

Fixed assets	C	H	H	H
Short-term liabilities	C	C	C	C
long-term liabilities	C	H	C	H
Property rights	H	H	H	H
Prepaid expenses	C	C	H	C
Deserved Revenues	C	C	C	C
Deserved payments	C	C	C	C
Revenue received in advance	C	C	H	C

H: The historical exchange rate,

C: the current exchange rate

2- Translation of financial statements in case of functional currency change:

When there is a change in the classification of a foreign operation, the translation procedures that are applicable for the classification rate should be applied from the date of the change in classification method; the change in working method or financing of the foreign operation in relation to its parent company may result in a change in the classification of that foreign operation; when a foreign operation that is considered to be complementary to the parent company's operations is reclassified as a foreign enterprise, exchange differences arising on translation of non-monetary assets are classified as property rights on the date of reclassification, and when a foreign operation is reclassified as a foreign operation that is complementary to the parent company's operations, the translated amounts of non-monetary items are treated as the historical cost of those items in the period in which the change occurs and subsequent periods, Exchange rate differences are not recognized as income or expense until the end of the transaction¹⁸

3- Justifications of the trade-off between the main currency and the strong currency as a functional currency for the preparation of financial statements:

- Branches of multinational companies are betting heavily on the choice of functional currency in the preparation of financial statements aimed at consolidation, as this has an important impact on the tax outcome and competitive strength of the parent company.

A- Reasons of using foreign branches strong currencies as a functional currency to prepare financial statements:

-Many parent companies recommend that subsidiaries rely on strong currencies (USD, EUR, JPY, GBP, etc.) as a functional currency to prepare their financial statements for consolidation, considering that these currencies are stabilizing and reducing the volume of spreads exchange of translation of foreign operations or translation of financial statements.¹⁹

- We find that the main currency of the majority of parent companies and especially the giant is one of the strong currencies. In order to ease and reduce the volume of exchange differences resulting from the conversion or translation and not to contribute to the impact on the elements of the structure of funding and the position of financial balance, which is concerned by economic agents with this company (shareholders, creditors ... etc); the latter recommends its affiliates to adopt the main currency as the functional currency, which we find that its historical development attests to weak and stable fluctuations and is not affected by inflationary pressures.

- Preparing financial statements for branches of the companies in strong currencies that enables various dealers with this company to understand and estimate the size of assets and liabilities of the institution, since all economic traders know the meaning of the value expressed in one of the strong currencies.

- Dependence on strong currencies as a functional currency helps the institution listed on the international stock exchange to avoid the problem of conversion and translation of financial statements to be understandable²⁰.

- The justification of the majority of companies that rely on strong currencies as a functional currency instead of the local currency of the country in which it is active is that the local currencies have the effects of inflation which is negatively reflected on the real values recorded in the financial statements and thus loss of confidence and reluctance of dealers on these companies. On the other hand, the loss of a very large value of its assets in the process of translation due to the severe decrease recorded by the local currency, and this choice contributes in avoiding the problem of

affecting the proportion of depreciation and balances which has an impact on the financial balance of the institution.

B - Justifications for using major currencies as a functional currency for the preparation of financial statements by foreign units:

- If the functional currency of the branch is the same as the currency of preparation of the consolidated financial statements of the parent company, the branch completely eliminates the translation of the financial statements and thus avoids exchange differences resulting from the translation and gets satisfied with the differences resulting from the conversion of foreign transactions which makes the branch as if it is active in the country in which the parent company is active, and that serves the parent company in terms of tax declaration.
- Relying on the functional currency itself as the main currency. That shows the strength of the relationship between the branch and the parent company, which contributes to strengthen the confidence of the dealers with the branch and confirm that the management, quality and product conform to the original product.²¹
- Accounting registration of various foreign operations and preparation of financial statements are done in the same currency, which facilitates the work of the internal auditor to perform his duties in the best way, who is dealing with the branches of his office using the means of technology and media at the same moment of the accounting registration process.
- Relying on the functional currency itself as the main currency contributes to reducing the cost and time to follow up the changes in the local currency exchange rate for translation and conversion.

The fourth axis: Determinants of the functional currency of Schlumberger branch in Algeria

In accordance with the International Accounting Standards (IAS) regarding the most important functional currency determinants for the preparation of financial statements for consolidation, we have presented and analyzed the justifications of the functional currency of this branch during the period 2010-2016 in the following table:

Table 2: Functional currency determinants of schlumberger Algeria

	2010	2011	2012	2013	2014	2015	2016
Number of foreign workers	330	294	321	222	259	305	255
Currency of wages for foreign workers	167 £ EUR 8 59 \$ KR 69	153 £ EUR 9 60 \$ KR 72	172 £ EUR 11 73 \$ KR 74	122 £ EUR 10 30 \$ KR 47	128 £ EUR 11 47 \$ KR 61	183 £ EUR 11 48 \$ KR 61	166 £ EUR 9 41 \$ KR 38
The average wage of a foreign worker in US dollars	11500	13500	12800	16500	15000	14320	16700
Wage mass for foreign workers	3795000	3969000	4108800	3663000	3885000	4367600	4258500
Number of local workers	1679	1324	1508	1109	1220	1397	1210
The average wage of the local worker in Algerian dinars	10000	10000	10000	10000	10000	10000	10000
The wage mass of local workers in US dollars	176737	139368	143620	102685	110910	121488	99180
Rate of transactions with the parent company	%24.67	%18.91	%21.34	%22.76	%21.77	%19.55	%20.78
Volume of foreign currency cash payments for exploitation (US \$)	%72.23	%81.08	%74.11	%69.06	%70.55	%75.72	%71.06
Currency of acquired loans	There are no loans received by the company, but there are advances made between the partners of the company or branches distributed in the world						

Source: Finance and Accounting Company schlumberger Algeria

We notice from the table that the company depends on a combination of foreign workers and each one is paid according to the currency of his country, represented in four currencies (US dollar, euro, sterling, Norwegian krona), but the accounting registration of these wages is in US dollars (the conversion process is based on the price of exchange rate prevailing on the date of payment of

wages in a different currency than the dollar). We also notice that the number of local workers is five times more than the number of foreign workers, but the foreign worker's wage is more than ten times than the local worker's wage, which made the monthly cash mass of wages of foreign workers exceeds US \$ 3 million, unlike the cash mass of local workers' wages that did not exceed 180 thousand US dollars.

The Algerian Central Bank authorizes companies that deal with the outside world to have their receipts or payments in local currency and foreign currency. Therefore, we find the company Schlumberger Algeria deals with Algerian companies in the field of services (security, catering, transport, cleaning...) where the payment is in the Algerian dinar. On the technical side, it deals with foreign companies such as British Petroleum, Andarko, Halliburton, etc, where the payment is mostly in US dollars. What we notice in the table is that the volume of cash transactions (cash inflows or outflows), which is in US dollars is around 75% and the rest is done in the Algerian dinar. That proves the vacuum in the investment environment of the institutions that are active in the field of petroleum industry, which drives Schlum to deal with foreign companies (that have residence in Algeria or do not) in order to acquire operating materials and purchase materials used in the exploitation operations.

We also notice the independence of this foreign unit from the parent company through the percentage of transactions with the parent company, which did not exceed the rate of 25%, and the nature of dealing which lies in particular in the acquisition of software programs, computer programs or training, in addition to the service of experience and auditing.

As we find that schlumberger relies on the so-called Cash Pool International to get cash, i.e. the company's branches across the world owe to each other without resorting to borrowing from banks.

It is clear to us from the table that the US dollar is the currency prevailing in the various transactions of Schlum Algeria, which means all the indicators confirm that the branch in Algeria is practicing most of its economic activities in US dollar. In addition, the parent company's most important recommendations to the branch is to take the US dollar as a functional currency to facilitate the compilation of accounts and the preparation of consolidated financial statements and

aggregates, in order to avoid the severe fluctuations experienced by the Algerian dinar, with the large difference experienced by the dinar compared to the balance value, and the other reason is the inflationary effects known by the Algerian economy.

Shlumberger takes the US dollar as a functional currency in most of its foreign units distributed throughout the world, and this is due to several reasons including:

- The US dollar is a strong currency that stabilizes in the short and medium term, which pushes the multinational companies to take it as a functional currency because of its contribution to reduce the volume of exchange differences resulting from the translation process. That makes the achieved result close to the real value and makes homogeneity between the achieved results of the company's branches, which has a significant impact on the tax base of the parent company.
- shlumberger has a very large branch in the United States of America and exactly in Houston, which has huge transactions in US dollars and that has a significant impact in the compilation of accounts.
- shlumberger Algeria deals with the parent company branches in terms of logistics, spare parts, raw materials, training and services. These branches take the US dollar as functional currency.
- The reports issued by the auditors provide for the advantage of relying on the US dollar as a functional currency for various foreign units in order to avoid the inflationary effects caused by the value of the country's currency on the financial statements of foreign units.

Conclusion:

The appropriate choice of the functional currency is one of the most important topics considered by the multinational companies as a link between the parent company and its branches distributed all over the world, in order to prepare the consolidated financial statements as the foreign units prepare financial statements in the language and currency of the country in which they are engaged. Then, the financial statements are translated in the currency in which the majority of the foreign units' economic activity is carried out, in order to send it to the parent company. That choice of functional currency raises many questions and determinants on which the branch is based in justifying the selected functional currency. That is due to the effect it has on the accounting

measurement mechanism and financial statements that reflect the true financial position of the parent company and the result that is subject to tax.

Shlumberger Algeria is required at the end of the year to prepare financial statements in the functional currency in order to send them to the parent company based in Britain, according to some determinants and considerations. In this paper, we discussed the justification for using the US dollar as functional currency in translating the financial statements directed to the parent company.

Results:

- The branch carries out most of its economic activities in US dollars, especially investment and financing activities, unlike exploitative activities which are settled in British pound, Norwegian kronor and Algerian dinar.
- The US dollar is taken as a functional currency in response to the guidance of the auditors.
- The stability of the US dollar in the short and medium term stimulates shlumberger branches to take it as the functional currency of the majority of foreign units
- The volume of transactions on the US stock exchange exceeds the volume of transactions on the British stock exchange, which encourages foreign units to take the US dollar as a functional currency
- The Algerian economy experiences inflationary effects, which is reflected in the situation of the Algerian dinar exchange rate and the deviation of the real value of the dinar from the equilibrium value, which is a good reason for shlumberger Algeria not to take the dinar as a functional currency in accordance with the International Accounting Standards.
- In order to reduce the volume of exchange differences resulting from translation, which affects the income statement and consequently the tax result, multinational companies prefer to take strong currencies as a functional currency for the majority of their foreign units operating outside the countries of these currencies.

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