

THE EURO & UK
BUSINESS IN 2002



The Euro & UK Business

-an explanatory booklet
for UK Businesses
trading with the Euro-zone



The Euro & UK Business in 2002

Introduction

The main issues for UK companies will be:-

- ◆ How to deal with outstanding orders and invoices in obsolete currencies – like the French Franc and the Irish Pound.
- ◆ How to transfer obsolete currency balances in the financial accounts.
- ◆ How to re-price goods and services for the euro-zone in euros.
- ◆ How to amend customer & supplier account default currencies
- ◆ How to deal with bank accounts in foreign currencies.
- ◆ How to consolidate foreign currency accounts.
- ◆ How to restate foreign fixed assets and liabilities in euros.
- ◆ How to deal with historical transactions in euro-zone currencies.
- ◆ UK Retail issues such as dual pricing and acceptance of euro currency through UK outlets
- ◆ How to handle UK VAT on local invoices denominated in the euro.
- ◆ Effect of the Euro on Payroll

The banks are already warning companies about receiving cheques after 31/12/2001 and cash payments in obsolete euro-zone currencies by February 2002, when most of these currencies will have been removed from circulation. There is not much time to prepare.



Exploiting the benefits of the Euro

Although the UK is outside the euro-zone it is important to recognise that the impact of the Euro on UK business will only increase after 01/01/2002, and companies should be ready to use their business systems to take advantage of it.

UK divisions of international organisations are already being asked to report in Euros when comparing results with other European divisions. As pricing comparisons between euro-zone countries become easier and more transparent competing UK companies will be under pressure to bid for business in the common currency. And if the UK decides to join the Euro it will be important to have a Euro base of competitive figures. Organisations that have held off introducing a Euro base currency for reporting should now be planning to do so.

The impact of the Euro will not be restricted to international organisations or companies trading with Europe. Even in the payroll department employees will increasingly be asking for part of their salary to be paid into a Euro bank account to pay for the mortgage on that dream farmhouse in Provence. Expenses for travelling in euro-zone will become easier to process as advances can all be in one currency, but employees will find it easier to submit claims in Euro than convert them to sterling first. Support for international electronic payment methods will be in increased demand.

How to deal with outstanding orders and invoices in euro-zone currencies.



From 1/1/2002 it will no longer be acceptable to raise orders and invoices in the euro-zone currencies. It will also be impossible to issue cheque or electronic payments in euro-zone currencies after 1/1/2002 as the banks will have withdrawn these payment facilities.

Some organisations have suggested to their customers and suppliers that any incomplete orders at 31/12/2001 should be cancelled and replaced by orders denominated in the euro. Not all software packages offer the possibility to match purchase orders and invoices in different currencies. The law allows for continuity of contracts set up in any of the 12 euro-zone currencies prior to 31/12/2001 but it is a lot simpler to restate the contracts in euros.

Payments received after 1/1/2002 to settle invoices denominated in any euro-zone currency will be in euro. The UK banks will automatically convert these amounts to Pounds Sterling. An exchange rate conversion adjustment may be required to match these amounts to outstanding balances.

What should you do?

- ◆ Reconcile all outstanding euro-zone invoices at 31/12/2001.
- ◆ Convert those customer / supplier accounts currently denominated in euro-zone currencies to be denominated in the euro.
- ◆ Ensure that no orders / invoices / payments in euro-zone currencies are created after 31/12/2001.
- ◆ Check any incomplete orders in euro-zone currencies and possibly cancel them and reissue the orders in euros.
- ◆ Ensure that all automatic payments / standing orders in euro-zone currencies are converted to the euro.

How to transfer obsolete currency balances in the financial accounts.



For organisations trading with the euro-zone they will have obsolete currency balances in the following modules in their business and accounting system:-

General Ledger – obsolete currency bank accounts; customer & supplier control accounts,

Sales Ledger – euro-zone customer accounts

Purchase Ledger – euro-zone supplier accounts

Sales Order Processing – sales orders and invoices in euro-zone currencies

Purchase Order Processing – purchase orders and invoices in euro-zone currencies

Stock Control - stock sales, purchases and inventory in euro-currencies

Fixed Assets – assets purchased in the euro-zone for overseas subsidiaries

These obsolete currency balances will need to be converted and journals posted to clear the obsolete currency balance by transferring the converted balance to euro-denominated accounts.

Some advanced multi-currency systems will enable the default currency of the customer and supplier accounts to be changed without affecting existing transactions in the obsolete currency. In other systems it may be easier to open new customer and supplier accounts, with the euro as the default currency, rather than try to transfer the existing foreign currency account to euros. This 'parallel' approach enables outstanding balances in euro-zone currencies to be cleared and all new orders / invoices and matching payments to be handled in separate euro accounts.

Inventory in euro-currencies will have to be converted and care should be taken with this conversion as huge rounding errors can occur with small unit prices. Any revaluation of stock by conversion to the euro must be reconciled with the stock valuation on the balance sheet.

Converting bank accounts is detailed later in the section entitled 'How to deal with bank accounts in euro-zone currencies'.

How to re-price goods and services for the euro-zone in euros.

In the past UK organisations have been able to get away with pricing their goods and services in Pounds Sterling. Now that 12 euro-zone countries have come together with the euro they are insisting that all prices are now in euros. That is not to say that there is only one price for the euro-zone – even a glass of beer can be a different price in two adjoining bars.

With the Pound Sterling floating against the euro, having prices set in the euro means that the UK-based company has to take the exchange rate risk.

Setting price-points is a common practice and is quite acceptable for UK-based organisations trading with the euro-zone. A UK-based organisation is not required to ensure the price is an exact conversion of the old foreign currency price, as in the euro-zone – there is no resale price maintenance so organisations can charge whatever price they believe is fair.

Some advanced stock control systems allow for different sales price lists in different currencies – some only allow one price to be converted to a foreign currency on the fly. It is important that euro prices are consistent and do not reflect the fluctuating nature of the Pound Sterling to the euro. In order to effectively invoice in the euro, a euro price list for goods and services needs to be established.

How to amend customer & supplier account default currencies

Multi-currency accounting systems used by UK-based organisations trading with the euro-zone will normally have default currencies for their customer / supplier accounts. The more advanced systems will allow more multiple currencies to be handled in those accounts. However once the customer / supplier switches its accounts to the euro then it will expect all orders / invoices / statements and payments to be in the euro currency.

This is not as easy as it sounds to set up and convert. Of course you cannot start to invoice in the euro until your goods and services have been priced in the euro. Your invoicing system will also need to know that the customer requires orders / invoices in the euro currency by setting up the euro as the default currency for that customer.

Whenever a trading partner switches its default currency, there will be a brief period where documents will coexist in two separate currencies. Some business systems may be able to send its customers statements with showing mixed-currency invoices, but this may be confusing for the customer. The 'parallel' approach to closing the customer / supplier accounts in euro-zone currencies and opening new accounts for them in the euro, may be a simpler and easier way to accomplish this transition. In this case statements are sent in both currencies whilst open items still exist.

How to deal with bank accounts in euro-zone currencies

If you are a company based outside of the Euro-Zone, such as in the UK, dealing with any of the Euro-Zone national currencies (listed below), you too will be affected by the withdrawal of those Euro-Zone national currencies as of 31 December 2001. They will be replaced by the euro and withdrawn from circulation within about 6 weeks and will become obsolete.

The conversion rates for these currencies to the euro are:-

Ireland	0.787564	IEP	- Irish Pounds,
Germany	1.95583	DEM	- German Marks,
France	6.55957	FRF	- French Francs,
Spain	166.386	ESP	- Spanish Pesetas,
Italy	1936.27	ITL	- Italian Lira
Netherlands	2.20371	NLG	- Dutch Gilder,
Belgium	40.3399	BEF	- Belgium Francs
Austria	13.7603	ATS	- Austrian Schillings
Portugal	200.482	PTE	- Portuguese escudos
Finland	5.94573	FIM	- Finish Markka
Luxembourg	40.3399	LUF	- Luxembourg Francs
Greece	340.750	GRD	- Greek Drachma



The Pound Sterling is roughly worth 1.6 euros – but the rate is floating each day.

Any bank accounts you hold denominated in any of those currencies will either be restated in Euros, usually maintaining the same bank account number, or you will be advised to transfer the balance to another account.

Any standing orders / direct debits will need to be restated. Your euro-zone currency chequebooks will be re-issued as euro cheque books.

How does this affect my accounting system?

You need to check with your bank when they will be performing the conversion of your foreign currency bank account to the euro. At that time you will receive a statement that will give a closing balance in the old currency, and a new opening balance in euros.

Armed with this information we advise you to:-

- ◆ Reconcile your accounting system's foreign currency bank account in its foreign currency so that it agrees with your bank's closing balance.
- ◆ If your bank is restating your existing account, or creating a new euro account: -
 - Create a new General Ledger account to represent the Euro bank account within the General Ledger.
 - Create a Nominal Journal to close the balance in the foreign currency bank account and post the converted balance in euros as the opening balance into the new euro bank account.
- ◆ Post any exchange conversion differences required to make the journal balance to the foreign currency variance account.
- ◆ If any of the bank accounts affected have been set-up as a default bank account, replace the default settings with the new General Ledger euro bank account code.
- ◆ If you have any direct debits set up automatically within the Auto daybooks, amend them to reflect the new bank account.
- ◆ If you decide to transfer the balance from the obsolete currency account to an existing account:-
- ◆ Create a Nominal Journal to close the balance in the original foreign currency bank account and post the converted balance into the existing account, in its own currency.
- ◆ Post any exchange conversion differences required to make the journal balance into your currency variance account.
- ◆ Amend any customer and supplier default currencies from the old currency to euros.
- ◆ Change stationery layouts for:- Invoices, credit notes, remittance advices, statements and cheques etc.
- ◆ Your software vendor may have written a number of conversation routines that will perform these conversations for you.

Restatement of Foreign assets and Liabilities

You may wish to re-denominate the transaction currency of any assets and liabilities into Euros. This is not essential as you may for internal management purposes still report in the original currencies. Should you wish to convert them to Euros, treat them the same way as the bank account described above.

How to deal with historical transactions in euro-zone currencies.

In a multi-currency system there is no need to convert historic transactions and balances in the old euro-zone currencies to the euro. It is a requirement to keep legal documents such as orders, invoices and payments in their original currency for up to 6 years, even though these transactions may have been converted, for accounting purposes, to the organisations base-currency. Current balances of any 'open' transactions will have to be converted to the euro as described earlier but the original document should not be converted.

UK Retail issues such as dual pricing and acceptance of euro currency through UK outlets

It is highly likely that euro-zone travellers to the UK would like to see our prices in euros as well as Pounds Sterling. They may even want to pay with euro coins and notes. It is at the discretion of the trader to decide if they wish to provide this service, it is not a legal requirement and the euro is not legal tender in the UK.

If dual prices are shown then these should be calculated using an up-to-date exchange rate, however this is not a legal requirement in the UK. The same applies to any other currency like the US Dollar.

If euro coins and notes are accepted as payment then the exchange rate given by the trader is discretionary, but should be close to the current exchange rate. There is no legal obligation to take euro coins and notes.

If receiving payments in the euro becomes significant, then the trader may prefer to open a euro bank account to save bank charges and commissions on each transaction.

There is no currency symbol on a credit card transaction – it is determined by the Trader. The currency of credit card transactions is set by the Traders own arrangement with its Credit Card Clearing company. In the UK most traders will be trading in the Pound Sterling even though they may be handling a foreign credit card.

How to handle UK VAT on local invoices denominated in euro.

Some UK-based organisations may wish to have the euro as their base currency and may wish to receive invoices for their goods in euros for local UK suppliers. It is acceptable to file accounts in the euro to the UK's Companies House but all tax submission to the Inland Revenue and VAT submissions to HM Customs & Excise have to be in Pounds Sterling.

In the UK Foreign currency invoices containing VAT generated by UK VAT registered organisations are required to show the VAT amount and the total invoice net value in Sterling. The Sterling value of the VAT will be at the currency market rate that day or using a rate supplied by HM C&E. The amount of input and output VAT claimed will be the Sterling figure shown on the invoice. Since there are likely to be wide fluctuations of the exchange rate between Sterling and the euro, this figure could be significantly different between the time of sale and the time the VAT is recovered.

BASDA recommends that the exchange rate used for the conversion of the euro amount to Sterling is also shown on the invoice.

If the receiving organisation is using the euro as its base accounting currency, (which is allowable in the UK), it will be required to record all input and output VAT and net invoice amounts in Sterling. The VAT Form 100, Intrastat and EC sales list submissions will be based on the original sterling amounts shown on the invoices, and not a conversion of the euro amount.

The three EU countries outside the 'euro-land' will have a problem with invoices bearing VAT in those countries. Denmark will have a minimal exchange rate fluctuation risk but Sweden and UK are likely to have significant exchange rate fluctuations. Therefore VAT shown on euro invoices in those countries (between local VAT registered organisations) will be required to show the local currency amount of the VAT as well as the euro amount.

Effect of the Euro on Payroll

If you pay any of your employees in a euro-zone currency you will need to make changes to your system in time for the 1/12002 changeover.

The most obvious changes are to the currency in which you pay (which will become the Euro) and the exchange rate from the Euro to sterling. If your payroll system manages the payments and pays out in foreign currency you must check how the conversion will be managed in your system and how the tax year to date figures will be carried forward. The taxation and National Insurance rules require that statutory calculations are made on sterling values; the conversion to a foreign currency is done after the calculations. It is therefore necessary that all year to date values are carried forward as a constant sterling value.

BACS payments have been possible using either sterling or Euro accounts for some time. Payments in other currencies are not possible. Where you are paying in foreign currencies there is now the possibility of bringing these payments into the BACS pay cycle instead of using other methods.

For some time the Inland Revenue have accepted payment of PAYE and NI in Euros. Remember that if you pay the Inland Revenue in Euros the payment is due as a sterling amount and the Euro payment is converted to sterling using the conversion rate at the time of payment. This can create a small over or under exchange variance which will need to be reconciled at the end of the tax year.



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