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**17/SMS02/066**

**ACC 406**

**ASSIGNMENT TITLE : TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENT**

**SUMMARY OF THE NOTE**

A foreign operation will have a net asset Statement of Financial Position exposure when assets translated at the current exchange rate are greater in amount than liabilities translated at the current exchange rate. A net liability Statement of Financial Position exposure exists when liabilities translated at the current exchange rate are greater than assets translated at the current exchange rate.

There are four major methods of translating foreign currency financial statement and those method are

* **Current/non current method** – for current/non current method current assets and current liabilities are translated at the current exchange rate; non-current assets, non-current liabilities, and stockholders’ equity accounts are translated at historical exchange rates.
* **Monetary/non monetary method** – it was developed in 1956 , under this method monetary assets and liabilities are translated at the current exchange rates; non monetary assets, non monetary liabilities, and stockholders’ equity accounts are translated at historical exchange rates.
* **Temporal method -**  the objective of the temporal method is to produce a set of parent currency translated financial statement as if the foreign subsidiary had actually used the parent currency in conducting its operations.
* **Current rate method –** the fundamental concept underlying the current rate method is that a parent’s entire investment in a foreign operation is exposed to foreign exchange risk and translation of the foreign operation’s financial statements should reflect this risk. Under the current rate method, revenues and expenses are translated using the exchange rate in effect at the date of accounting recognition.

To measure the net investment’s exposure to foreign exchange risk the following just take place::

i. All assets and liabilities of the foreign operation are translated using the current exchange rate.

ii. Equity accounts are translated at historical exchange rates.