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SUMMARY ON TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS

**Statement of Financial Position Exposure**

When exchange rates adjust, the assets and liabilities converted from Statement of Financial Position to Statement of Financial Status in terms of the reporting currency of the parent company at the actual exchange rate increase of value.

Exposure statement of financial position can be contrasted with the transaction exposure discussed earlier that occurs when a business has foreign currency receivables and payables as follows: exposure to transactions leads to foreign exchange gains and losses that are eventually realized in cash; translation adjustments that arise from Statement of Financial Position exposure do not directly result in cash flow.

Each object being translated at the current exchange rate is subject to an improvement in translation. In addition, there is a separate translation change for each of these objects being revealed. However, when the foreign currency appreciates positive translation changes on assets are offset by negative translation changes on liabilities. When the gross exposed assets in the year are equal to the total exposed liabilities, the translation changes produce a negative balance. The net exchange adjustment necessary to balance the combined Statement of Financial position is based exclusively on net asset or net exposure to liabilities.

**Translation Methods**

Worldwide, four key methods of translating foreign currency financial statements were employed:

1. The guidelines for the current / non-current method are as follows: current assets and current liabilities are translated at the current exchange rate; non-current assets, non-current liabilities, and equity securities of stockholders are translated at traditional exchange rates. This approach does not underlie any scientific basis.
2. Monetary assets and liabilities are translated at the actual exchange rates in this method; non-monetary assets, non-monetary liabilities, and equity accounts of stockholders are converted at historical exchange rates. Cash, receivables and payables held on the Statement of Financial Position of the foreign operation are subject to foreign exchange risk under the monetary / non-monetary method. Net asset exposure occurs as cash plus receivables exceed payables, and net liability exposure occurs when payables exceed cash plus receivables.
3. The basic aim behind the temporal translation method is to generate a series of financial statements interpreted from parent currency as if the foreign subsidiary had previously used the parent currency in running its operations. In accordance with the underlying objective of the temporal method, assets and liabilities recorded on the Statement of Financial position at historical expense of the foreign transaction are translated at historical exchange rates in order to yield an equal historical cost in terms of parent currency.
4. The fundamental principle behind the current rate method is that the entire investment of a parent in a foreign operation is subjected to foreign exchange risk, and this risk should be expressed in the presentation of the financial statements of the foreign operation. Using the current rate method, revenue and expenses are converted using the exchange rate in place at the accounting recognition date. For certain cases, it should be assumed that the revenue or expense is accumulated equally over the year and that an average exchange rate is used throughout the period.