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**TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS**

Statement of financial position exposure are translation adjustments that do not directly result to cash inflows or cash outflows. This differs from transaction exposure which prompt foreign exchange gains or losses that are realized in cash. All items translated at the current exchange rate are exposed to translation adjustment. Therefore, a different translation adjustment subsists for each of these items. However, the consolidated statement of financial position must balance with the net asset or net liability exposure translation adjustment.

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. Such that positive net asset translation adjustment appreciates, and the negative net asset translation adjustment depreciates while a negative net liability translation adjustment appreciates, and the positive net liability translation adjustment depreciates.

There are four widely used methods for translating foreign currency financial statements, current/non-current method, monetary/non-monetary method, temporal method, and current/ closing rate method. In the current/non-current method, current assets and current liabilities are translated at the current exchange rate while non-current liabilities and stockholders’ equity accounts are translated at historical exchange rates. This method is not accepted under the international financial reporting standard. It also lacks theoretical justification.

In the monetary/non-monetary method which was developed by Hepworth, monetary assets and liabilities are translated at the current exchange rates while non-monetary assets, non-monetary liabilities, and stockholder’s equity accounts are translated at historical exchange rates. This method was formed to cover the lack of theoretical justification in the current/non-current method.

Under the temporal method, the underlying motive is to produce a set of parent currency translated financial statements just like if the foreign subsidiary had truly used the parent’s current in conducting its operations. Assets and liabilities reported on the foreign operation’s Statement of Financial Position at historical cost will be translated at historical exchange rates to yield an equivalent historical cost in parent currency terms. Equally, assets and liabilities reported on the foreign operation’s Statement of Financial Position at a current value will be translated at the current exchange rate to yield an equivalent current value in parent currency terms.

The current method suggests that a parent’s entire investment in a foreign operation is exposed to foreign exchange risk and the translation of the foreign operation’s financial statements should show this risk. Revenues and expenses are translated using the exchange rate in effect at the date of accounting recognition. In most cases an assumption can be made that the revenue or expense is incurred evenly throughout the year and an average-for-the-period exchange rate is used. The current rate method and the temporal method are the two methods required to be used under IAS 21, The Effects of Changes in Foreign Exchange Rates.