**NAME:** Anyakorah Netochukwu Winniefred

**MATRIC NUMBER:** 16/SMS02/011

**COURSE CODE:** ACC 406

**DATE:** 12/04/2020

**TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS**

Assets and liabilities translated at current exchange rate are exposed to translation adjustments whenever there is a change in exchange rate. However, assets and liabilities translated at historical exchange rates are not exposed to translation adjustments when changes occur in exchange rates.

Transaction exposure should not be mistaken to be translation adjustments. Transaction exposure gives rise to foreign exchange gains and losses that are ultimately realized in cash while translation adjustments that arise from Statement of Financial Position exposure do not directly result in cash inflows or outflows.

Positive translation adjustments on assets when the foreign currency appreciates are offset by negative translation adjustments on liabilities. If total exposed assets are equal to total exposed liabilities throughout the year, the translation adjustments net to a zero balance. When assets translated at the current exchange rate are greater in amount than liabilities translated at the current exchange rate, a foreign operator will have a net asset Statement of Financial Position exposure. And when liabilities translated at the current exchange rate are greater in amount than assets translated at the current exchange rate, a foreign operator will have a net liability Statement of Financial Position exposure.

There are four major methods of translating foreign currency financial statements. They are:

1. **Current/noncurrent method:** For this method, current assets and current liabilities are translated at the current exchange rate while noncurrent assets, noncurrent liabilities and other items are translated at historical exchange rate.
2. **Monetary/nonmonetary method:** Under this method, monetary assets (cash and receivables) and liabilities (payables) are translated at the current exchange rates while nonmonetary assets, nonmonetary liabilities, and stockholders’ equity accounts are translated at historical exchange rates. A met asset exposure exits when monetary assets exceed monetary liabilities, and a net liability exposure exists when monetary liabilities exceed monetary assets.
3. **Temporal method:** This method involves producing a set of parent currency translated financial statements as if the foreign subsidiary had actually used the parent currency in conducting its operations.
4. **Current rate method:** Under this method, all assets and liabilities are translated using the current exchange rate while equity accounts are translated at historical exchange rates. The Statement of Financial Position exposure measured by the current rate method is equal to the foreign operation’s net asset position (total assets minus total liabilities)

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.**