ABEJIDE OYINDAMOLA

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INTERNATIONAL ACCOUNTING

TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENT

**TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS**

Concerning translation of foreign currency financial statement, there are three (3) main terminologies being used namely: t**ransaction adjustments, transaction exposure and statement of financial position exposure.**

Foreign currency translation is an international accounting method in which multinational companies translate the accounts of its foreign branches into the parent company's operating currency in order to record in the company's accounting records. There is a direct relationship between exchange rate and asset and liabilities in which as exchange rates change, translation of the assets and liabilities vary in terms of the different statement of financial positions in relation to the parent company are exposed to translation adjustment against recording the SOFP items in their historical exchange rates. This is know as "**a statement of financial position exposure"**, meaning each item exposed has a separate translation. There are positive translation adjustments on assets when the foreign currency appreciates and this throws off the balance while there are negative adjustments on liabilities. Therefore, if the assets and liabilities are equally exposed there is no translation adjustment.

Transaction exposure and translation exposure differ from one another in terms that the latter occurs as a result of a foreign currency's receivables and payables creating foreign exchange losses and gains that are received in cash, while the former not being directly affected but cash inflows and outflows.

In IAS 21, the effects of changes in Foreign exchange rates, the concept os accepting current rate and temporal method is employed, The two other existing methods are: monetary/non-monetary method and the current/non-current method.

The aim of employing the temporal method of translation is to produce a set of parent currency translated financial statements as if the foreign subsidiary had actually used the parent currency in conducting its operations. The assets and liabilities of the foreign company at historical cost are translated at historical exchange rate.

Under the current rate method; the assets and liabilities in the SOFP are translated in the current exchange rate while the equity is translated in the historical cost. revenues and expenses are translated using the exchange rate in effect at the date of accounting recognition.

This method is based on the idea of a parent company's investment in the foreign branch is exposed to foreign exchange risk and the translation should reflect the risks.

In the current/non-current method, current assets and current liabitiles are translated at the current exchange rates while the non-current items and equity accounts are translated in the historical exchange rate.

Under the Monetary/non-monetary method, the monetary assets(primarily cash and receivables) and monetary liabilities (mostly payables) are translated at the current exchange rates while the nonmonetary assets, nonmonetary liabilities, and stockholders’ equity accounts are translated at historical exchange rates.