Matric no.: 16/SMS02/044

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Course code: ACC 406

**Statement of financial exposure**

When items from statement of financial position are translated at current exchange rate to statement of financial position to the parent company its items are exposed to translation adjustment. Such is called statement of financial position exposure.

When assets translated at current exchange rate are greater than liabilities translated it is a net asset statement of financial position while when liabilities translated are greater than net asset it is net liability statement of financial position exposure.

**Translation methods**

1. Current/noncurrent method. Here current assets and current liabilities will be translated at the current exchange rate while non-current assets, non-current liabilities, and stockholders’ equity accounts will translated at historical exchange rates. In the past it used to be the main method used but nowadays it is no longer allowed under International Reporting Standards and is rarely used in other countries.
2. Monetary/nonmonetary method. This method was developed by Hepworth in 1956 to solve the lack of the theoretical justification in the current/noncurrent method. Here monetary assets (assets whose monetary value does not fluctuate. i.e; cash and receivables) and liabilities (liabilities whose value does not fluctuate.) are translated at current exchange rates while nonmonetary assets (assets whose monetary value can fluctuate. i.e; inventory, investments, etc.), liabilities and stockholders’ equity account are translated at historical exchange rates. Under this method cash, receivables and payables carried on the foreign operation’s statement of financial position are exposed to foreign exchange risk. Meaning that if the cash plus receivables surpasses payables there is a net asset exposure but a net liability exposure arises if payables surpass cash plus receivables.
3. Temporal method. The aim of this method is to make a set of parent currency translated financial statements under the assumption that the foreign subsidiary used the parent currency in conducting its operations. Here, assets and liabilities reported on the foreign operation’s statement of financial position at historical cost are translated at historical exchange rates to produce an equivalent historical cost in parent currency terms. Assets and liabilities reported at a current (or future) value are translated at the current exchange rate to produce an equivalent value in the parent currency.
4. Current rate method. Here there is the idea 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 the risk. to measure exposure to foreign exchange risk all assets and liabilities of the operation are translated using the current exchange rate, and equity accounts are translated using historical exchange rate. The exposure is the total assets minus total liabilities. Here revenues and expenses are translated using the exchange rate in effect at the date of accounting recognition. Assumption can be made that revenue or expense is incurred evenly; hence average-for-the-period exchange rate is applied.

The current and temporal methods are required to be used under IAS21.