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**ASSIGNMENT TITLE:** SUMMARY OF TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS

**Statement of Financial Position Exposure**

As exchange rates change, assets and liabilities translated at the current exchange rate change in value from Statement of Financial Position to Statement of Financial Position in terms of the parent company’s reporting currency. Exposure to translation adjustment is Statement of Financial Position, translation, or accounting exposure.

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.

**Translation Methods**

Translating foreign currency financial statement are Current/noncurrent method, Monetary/nonmonetary method, temporal method, and Current rate method.

**Current/Noncurrent Method**

The rules for the current/noncurrent method are as follows: current assets and current liabilities are translated at the current exchange rate; noncurrent assets, noncurrent liabilities, and stockholders’ equity accounts are translated at historical exchange rates. There is no theoretical basis. The current/noncurrent method has been unacceptable in the United States since 1975, has never been allowed under International Financial Reporting Standards, and seldom used in other countries.

**Monetary/Nonmonetary Method**

To remedy the lack of theoretical justification for the current/noncurrent method, Hepworth developed this method of translation in 1956. This method, monetary assets and liabilities are translated at the current exchange rates; nonmonetary assets, nonmonetary liabilities, and stockholders’ equity accounts. Monetary assets value does not fluctuate, Non-monetary assets value can fluctuate. All assets expect cash and receivables. Monetary liabilities are liabilities whose monetary value cannot fluctuate over time. The concept of exposure underlying the ***monetary/nonmonetary*** method is to assume that the foreign operation’s cash, receivables, and payables are actually foreign currency assets and liabilities of the parent company.

**Temporal Method**

The basic objective underlying 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. Assets and liabilities reported on the foreign operation’s Statement of Financial Position at historical cost are translated at historical exchange rates to yield an equivalent historical cost in parent currency terms. Application of these rules maintains the underlying valuation method used by the foreign subsidiary in accounting for its assets and liabilities.

**Current Rate Method**

The major method used in translating foreign currency financial statements is the current rate method. The method is that a parent’s entire investment in a foreign operation is exposed to foreign operation and to foreign exchange risk and translation of the foreign operation’s financial statements should reflect this risk. Under this method, revenues and expenses are translated using the exchange rate in effect at the date of accounting recognition. Alternatively, all income statement items may be translated at the current exchange rate. 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.