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**Translation of Foreign Currency Financial Statements**

Translation adjustments, statement of financial position exposure, transaction exposure are the three key accounting terms which continue to be referred to in this subject.

Foreign currency translation is the accounting process by which an international business converts the earnings of its foreign subsidiaries into domestic currency terms so that they can be reported in the books of accounts. When the exchange rate varies, the assets and liabilities converted at the current rate vary in various financial position statements in accordance with the parent company are subject to a translation adjustment rather than to the accounting of SOFP items at historical exchange rates. It is referred to as the statement of financial position exposure. Of this purpose, every exposed item has a separate translation. Positive translation changes to assets where foreign currency appreciation is thrown out of balance when there is a negative change to liabilities. The same is true of the Net Asset Statement of Financial position as that arising from the accumulation of translated assets greater than the translated liabilities. The opposite is the case for the declaration of net liabilities in the statement of financial position exposure. Translation exposure varies from transaction exposure in that the former does not directly result in cash flows, but the latter occurs when a business has foreign currency receivables and payables which produce foreign exchange losses and profits earned in cash.

Thus IAS 21, the effects of changes in foreign exchange rates, acknowledges the current rate method and the temporal method, there are two other approaches which are the Current and the Monetary method. In the current / non-current process, current assets and current liabilities are translated at the current exchange rate; non-current assets, non-current liabilities and equity accounts are translated at historical exchange rates. Under the monetary system, monetary assets (primarily cash and receivables) and monetary liabilities (mostly payables) are translated at current exchange rates; non-monetary assets, non-monetary liabilities, and equity accounts of shareholders are translated at historical exchange rates. Monetary assets are assets whose value does not fluctuate over time as the opposite of monetary liabilities, whereas non-monetary assets are assets whose monetary value can fluctuate as opposed to non-monetary liabilities.

The basic aim of the temporary translation approach is to generate a compilation of translated financial statements of the parent currency as if the international subsidiary had already used the parent currency in carrying out its operations. This happens for assets and liabilities recorded on the Statement of Financial position of the foreign company at the net value, which is converted at the current exchange rate to yield the corresponding current value in the parent currency terms.

Under the current rate method, revenues and expenditures are converted using the exchange rate in effect on the date of accounting recognition. The current rate method is based on the idea that the entire investment of the parent in a foreign operation is subject to foreign exchange risk and that the translation of the foreign operation's financial statements will represent this risk.