**TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS FORMAT**

**Statement of Financial Position Exposure**

As exchange rate changes, assets and liabilities translated at the current exchange rate is exposed to translation adjustments (for example, U.S. dollar). It occurs from one Statement of Financial Position to another in terms of parent company’s reporting currency, such exposure is referred to as Statement of Financial Position, translation, or accounting exposure. When items are translated at historical exchange rates, they do not change because they are not exposed to translation exposure. Transaction exposure arises when a company has a foreign currency receivables and payables. A foreign operation will have both a net asset Statement of Financial Position exposure and a net liability Statement of Financial Position exposure. It exists when assets/liabilities translated at the current exchange rate are greater in amount than liabilities/assets translated at the current exchange rate.

|  |  |  |
| --- | --- | --- |
| Statement of Financial Position Exposure | Foreign Currency | |
| Appreciates | Depreciates |
| Net Asset | Positive Translation adjustment | Negative Translation adjustment |
| Net liability | Negative Translation adjustment | Positive Translation adjustment |

This shows the relationship between exchange fluctuations, Statement of Financial Position Exposure and Translation Adjustments.

**TRANSLATION METHODS**

**Current/Noncurrent method**

Although once the predominant method, it has been unacceptable in the united states since 1975, and has never been allowed under the International Financial Reporting Standards. The rules for this method are as follows

* Current assets and liabilities are translated at the current exchange rate
* Noncurrent assets and liabilities, and stockholder’s equity accounts are translated at historical exchange rates.

**Monetary/Nonmonetary Method**

This method was developed by Hepworth in 1956, to remedy the lack of theoretical justification for the above method. Under this method, monetary assets(assets whose value do not fluctuate over time-primarily cash and receivables) and liabilities(liabilities whose value cannot fluctuate over time, in most cases of payables) are translated at the current exchange rate; nonmonetary assets(assets whose value can fluctuate e.g marketable securities, inventory), liabilities and stockholder’s equity accounts are translated at historical exchange rates. Cash, receivables, and payables of foreign operations companies are exposed to foreign exchange risk.

Cash + Receivables>payables= Net asset exposure

Cash + Receivables< Payables= Net liability exposure

**Temporal Method**

Under this method, the basic objective 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 foreign operation’s Statement of Financial Position be it at historical cost or at current value are translated in the rate so as to yield equal cost/value in parent currency terms.

**Current Rate Method**

Here, 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 this risk. Revenue and expenses are translated using the exchange rate in effect at the date of accounting recognition. Foreign exchange risk is measured when;

* All assets and liabilities of the foreign operation are translated using the current exchange rate.
* Equity accounts are translated at historical exchange rates.

Total assets>Total liabilities=Net asset exposure