NAME: SADIQ ABDULLAHI OZOVEHE

MATRIC NUMBER: 17/SMS02/069

COURSE: INTERNATIONAL ACCOUNTING.

COURSE CODE: ACC 406.

**SUMMARY ON TRANSLATION OF FOREIGN CURRENCY FINANACIAL STATEMENTS**

 From what I have understood from the Note;

If your business entity operates in other countries, you will be using different currencies in your business operations however, when it comes to accounting, your financial statements have to be recorded in a single currency. This is why you need to perform foreign currency translation. Business with international operations must translate their transactions like the acquisition of assets or the purchase of services into their functional currency, and the translation adjustment that arise from statement of Financial Position exposure do not directly result in cash inflows or outflows. Each item such as the assets and liabilities found on the balance sheet translated at the current exchange rate is exposed to translation adjustment. It was noted that when assets translated at the current exchange rate are greater in amount than liabilities translated at the current exchange rate a foreign operation will then have a net asset Statement of Financial Position exposure. While when liabilities translated at the current exchange rate are greater than assets translated at the current exchange rate it will result to a net liability Statement of Financial Position exposure.

**Since** exchange rates are constantly fluctuating, it can cause difficulty while accounting for foreign currency translation, instead of simply using the current exchange rate, business may look at different rates either for a specific period or specific date. Such as;

* **Current/Noncurrent Method**: There is no theoretical basis underlying this method its simply says that the rules for the current/noncurrent method are as follows:
* current assets and current liabilities are translated at the current exchange rate. while
* noncurrent assets, noncurrent liabilities, and stockholders’ equity accounts are translated at historical exchange rates.
* **Monetary/Nonmonetary Method**: Under this method monetary items (e.g. cash, accounts payable and receivable, and long term debt) are translated at the current rate while non-monetary items (e.g. Inventory, fixed assets, and long term investments) are translated at historical cost.
* **Temporal Method:** Is a means of converting the currency used by a foreign subsidiary into the currency of its parent company, various currencies used in order to most accurately reflect the true value of the subsidiary’s assets and liabilities.
* **Current Rate Method**: is a standard method of currency translation that utilizes the current market exchange rate, companies must report using the currency of the environment in which it primarily generates and expends cash, the current rate method is often used when the subsidiary is fairly independent from the patents activities, it may be contrasted with the temporal method.