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**SUMMARY ON THE NOTE UNDER TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS**

**Statement of Financial Position Exposure**

As exchange rates fluctates, assets and liabilities translated at the current exchange rate also fluctuates in value from statement of financial position to statement of financial position in terms of the parent company’s reporting currency, these items are exposed to translation adjustment. Exposure to translation adjustment is also referred to as statement of financial position, translation, or accounting exposure. Statement of financial position exposure can be seen as the opposite of transaction exposure where by transaction exposure gives rise to foreign exchange gains and losses which are ultimately realized in cash while translation adjustments that arise from statement of financial position exposure do not directly result in cash inflows or outflows. Each items translated at the current exchange rate is exposed to translation adjustment. Positive translation adjustments on assets when the foreign currency appreciates are offset by negative translation adjustments on liabilities. If total exposed assets are equal to total exposed liabilities throughout the year, the translation adjustments net to a zero balance. A foreign operation will have a net asset statement of financial position exposure when assets translated at the current exchange rate are lager in amounts 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 larger than assets translated at the current exchange rate.

**Translation Methods**

There are four major methods of translating foreign currency financial statements which will be explained briefly.

1. **Current and Noncurrent Method**

In this method the rules guiding the current and noncurrent method are current assets and current liabilities are translated at the current exchange rate and noncurrent assets, noncurrent liabilities, and stockholders’ equity accounts are translated at historical exchange rates.

1. **Monetary and Nonmonetary Method**

Under this method, monetary assets and liabilities are translated at the current exchange rates while nonmonetary assets and liabilities, and stockholders’ equity accounts are translated at historical exchange rates. Monetary assets are those assets whose value does not fluctuate over time which are cash and receivables while monetary liabilities are those liabilities whose monetary value cannot fluctuate over time, which are payables.

1. **Temporal Method**

Under this method translation is to produce asset 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 have an equivalent historical cost as same as the parent’s currency also assets and liabilities reported on the foreign operation’s statement of financial position at a current value are translated at the current exchange rate to have an equivalent current value as same as the parent’s currency.

1. **Current rate or Closing Rate Method**

This method used in translating foreign currency financial statements is the current rate method. The current rate method is 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 in which should reflect this risk. To measure the net investment’s exposure to foreign exchange risk:

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