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**Summary of Translation of Foreign Currency Financial Statements note.**

Statement of Financial Position items such as assets and liabilities are exposed to translation adjustment if they are translated at current exchange rate and change in value from Statement of Financial Position to Statement of Financial Position in terms of the parent company’s reporting currency as exchange rates change however, Statement of Financial Position items are not exposed to translation adjustment if the items are translated at historical exchange rates and do not change in parent currency value from one Statement of Financial Position to another.

Statement of Financial Position exposure is different from transaction exposure i.e. the latter gives rise to foreign exchange gains and losses that are ultimately realized in cash while the former does not directly result in cash inflows or outflows.

A positive translation adjustment on assets occurs when the foreign currency appreciates are offset by negative translation adjustments on liabilities and vice versa. The translation adjustment net to a zero balance occurs if the total exposed asset is equal to the total exposed liability in the year but if the assets translated are greater than liabilities translated a foreign operation will have a net asset Statement of Financial Position exposure also, a net liability Statement of Financial Position exposure will occur if the case is reversed.

Translation methods

**Current/noncurrent method**

Current assets and liabilities are translated at the current exchange rate - exposed items; noncurrent assets, noncurrent liabilities, and stockholders’ equity accounts are translated at historical exchange rates- are not exposed. Since 1975, this method has been unacceptable in the United States and has never been allowed under IFRS.

**Monetary/nonmonetary method**

Monetary assets (cash and receivable) and liability (payables) are those assets and liability whose value cannot fluctuate over time; nonmonetary assets are assets whose value can fluctuate.

Monetary assets and liabilities are translated at the current exchange rates - exposed items; nonmonetary assets, nonmonetary liabilities, and stockholders’ equity accounts are translated at historical exchange rates – are not exposed.

Assets exceeding the liabilities leads to net asset exposure while net liability exposure occurs liability exceeds the assets.

Hepworth in 1956 developed the method.

**Temporary method**

This is required under IAS 21. The temporary method involves producing a set of parent currency translated financial statements as if the foreign subsidiary had actually used the parent currency in conducting its operations. Items reported on the foreign operation’s Statement of Financial Position at historical cost are translated at historical exchange rates and vice versa for current exchange rate.

**Current Rate Method**

This is required under IAS 21. The concept underlying 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 should reflect this risk. Total assets greater than Total liabilities is equal to net asset exposure.

Under the current rate method, revenues and expenses are translated using the exchange rate in effect at the date of accounting recognition. All income statement items may be translated at the current exchange rate.