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

Due to exchange rate change, asset and liabilities at the current exchange rate change in value from statement of financial position to the statement of financial position in the parent company’s reporting currency. This items are exposed to TRANSLATION ADJUSTMENT.

The statement of financial position items that are translated at historical exchange rate do not change in parent currency value. These items are not exposed to TRANSACTION ADJUSTMENT.

Translation Adjustment is referred to as Statement of Financial Position, translation, or accounting exposure. Therefore, statement of financial position exposure can be contrasted with the transaction exposure discussed earlier that arises when a company has foreign currency receivables and payables in the following ways:

Transaction exposure gives rise to foreign exchange gains and losses that are ultimately realized in cash; translation adjustments that arise from Statement of Financial Position exposure do not directly result in cash inflows or outflows.

**TRANSLATION METHODS**

i. Current/noncurrent method,

ii. Monetary/nonmonetary method,

iii. Temporal method, and

iv. Current rate (or closing rate) method.

**Current/ non-current method**: The rules for this method implies that current assets and current liabilities are translated at the current exchange rate; noncurrent assets, noncurrent liabilities, and stockholders’ equity accounts are translated at historical exchange rates. This method was never allowed under IFRS, was not acceptable in the United States since 1975, and it’s rarely used in other countries.

**Monetary/ non-monetary method**: Under this method, monetary assets and liabilities are translated at the current exchange rates; nonmonetary assets, nonmonetary liabilities, and stockholders’ equity accounts are translated at historical exchange rates. Monetary assets are those assets whose value does not fluctuate over time—primarily cash and receivables. Nonmonetary assets are assets whose monetary value can fluctuate.

**Temporal method**: The major purpose of this method 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.

**Current rate method**: The fundamental 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. To measure the net investment’s exposure to foreign exchange risk:

i. All assets and liabilities of the foreign operation are translated using the current exchange rate.

ii. Equity accounts are translated at historical exchange rates.

The Statement of Financial Position exposure measured by the current rate method is equal to the foreign operation’s net asset position (total assets minus total liabilities).

Total assets > Total liabilities → Net asset exposure

A positive translation adjustment results when the foreign currency appreciates, and a negative translation adjustment results when the foreign currency depreciates.

The current rate method and the temporal method are the two methods required to be used under IAS 21, The Effects of Changes in Foreign Exchange Rates.