**SUMMARY OF TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENT**

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* As exchange rates change, assets and liabilities are translated in the statement of financial position in the value in terms of the parent’s company reporting currency. This results in translation adjustments but statements of financial position translated at historical exchange rates are not subject to adjustment.
* Translation exposure occurs when a company has foreign currency receivables and payables. The transaction exposure gives rise to gains and losses that are realized in cash. Positive translation adjustments on assets when foreign currency appreciates are offset by negative translation adjustments on liabilities.
* A foreign operation will have a net asset statement of financial position exposure when assets translated are greater in amount than liabilities translated at the current exchange rate. A net liability statement of financial position exposure exists when liabilities translated are greater than assets translated at current exchange rate.
* There are four methods of translating foreign currency financial statement which are:
  1. Current/non-current method- where current assets and liabilities are translated at current exchange rate; stockholders’ equity account are translated at historical cost.
  2. Monetary/non-monetary method- where monetary assets and liabilities are translated at current exchange rates; non-monetary assets and liabilities and stockholders’ equity are translated at historical exchange rates. Monetary assets are those whose values do not fluctuate overtime like cash while non-monetary assets are those whose monetary values can fluctuate e.g marketable securities.
  3. Temporal method- the objective of which 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 operation.
  4. Current rate method- the concept here 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 statement should reflect the risk.