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

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Changes in the exchange rate affects assets and liabilities translated at the current exchange rate causing there to be a change in their values from Statement of Financial Position to Statement of Financial Position in terms of the parent company’s reporting currency. These items (assets and liabilities) are exposedto translation adjustment. Statement of Financial Position items translated at historicalexchange rates do not change in parent currency value from one Statement of Financial Position to the next and are not exposed to translation adjustment. Exposure to translation adjustment is referred to as Statement of Financial Position, translation, or accounting exposure.

To give more understanding to Statement of Financial exposure it can be compared with transaction exposure which is a type of foreign exchange risk faced by companies in international trade that exchange rate fluctuations will change the value of a contract before it is settled. A foreign operation will have a net asset Statement of Financial Position exposurewhen assets translated at the current exchange rate are greater in amount than liabilities translated at the current exchange rate. A net liability Statement of Financial Position exposureexists when liabilities translated at the current exchange rate are greater than assets translated at the current exchange rate.

Four major methods of translating foreign currency financial statements have been used worldwide. Firstly, is the **Current/Noncurrent Method**: Under this method, 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.

Secondly, is the **Monetary/Non-monetary Method:** Due to the lack of a theoretical basis for the current/noncurrent method, Hepworth developed the monetary/non-monetary method of translation in 1956. Under this method, monetary assets and liabilities are translated at the current exchange rates; non-monetary assets, non-monetary liabilities, and stockholders’ equity accounts are translated at historical exchange rates.

Thirdly, is the **Temporal Method**: The basic objective underlying the temporal method of translation 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. For example, land carried on the books of a foreign subsidiary should be translated such that it is reported on the consolidated Statement of Financial Position at the amount of parent currency that would have been spent if the parent had sent parent currency to the subsidiary to purchase the land.

Lastly, is the **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 all assets and liabilities of the foreign operation are translated using the current exchange rate and equity accounts are translated at historical exchange rates.