**NAME: BAKARE SOPEFOLUWA SAMUEL**

**MATRIC: 16/SMS02/016**

**TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS**

**Statement of Financial Position Exposure**

As exchange rates change, assets and liabilities translated at the current exchange rate change in value from Statement of Financial Position to Statement of Financial Position in terms of the parent company’s reporting currency (for example, U.S. dollar). These items are exposed to translation adjustment. Statement of Financial Position items translated at historical exchange rates do not change in parent currency value from one Statement of Financial Position to the next. These items are not exposed to translation adjustment. Exposure to translation adjustment is referred to as Statement of Financial Position, translation, or accounting exposure. 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 way:

***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.***

A foreign operation will have a net asset Statement of Financial Position exposure when 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 exposure exists when liabilities translated at the current exchange rate are greater than assets translated at the current exchange rate. The relationship between exchange rate fluctuations, Statement of Financial Position exposure, and translation adjustments can be summarized as follows:

|  |  |  |
| --- | --- | --- |
| **STATEMENT OF FINANCIAL POSITION EXPOSURE** | **FOREIGN CURRENCY** | |
| **APPRECIATES** | **DEPRECIATES** |
| Positive Translation adjustment | Negative Translation adjustment |
| NET ASSET |
| Negative Translation adjustment | Positive Translation adjustment |
| NET LIABILITY |
|  |  | |
|

TRANSLATION METHODS

**Current/Noncurrent Method**

The rules for the current/noncurrent method are as follows: 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. There is no theoretical basis underlying this method. Although once the predominant method, the current/noncurrent method has been unacceptable in the United States since 1975, has never been allowed under International Financial Reporting Standards, and is seldom used in other countries.

**Monetary/Nonmonetary Method;**

Under the monetary/nonmonetary method, cash, receivables, and payables carried on the foreign operation’s Statement of Financial Position are exposed to foreign exchange risk. There is a net asset exposure when cash plus receivables exceed payables, and a net liability exposure when payables exceed cash plus receivables.

**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.

**Current Rate Method**

The fourth major method used in translating foreign currency financial statements 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.