Awala alero jessica

16/sms02/013

Acc406

**TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENT**

The change of exchange rates makes 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 parent company reporting currency to be exposed to translation adjustments , historical exchange rate that Are translated in statement of financial position do not change in parent currency value from one statement of financial position to the next

Cash is realized due to the exposure to transaction which leads to foreign exchange of gains and losses , translation adjustment that arise from statement of financial position exposure do not directly result in cash flow

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

The net translation adjustment needed to keep the consolidated Statement of Financial Position in balance is based solely on the net asset or net liability exposure.

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

**TRANSLATION METHODS**

Four major methods of translating foreign currency financial statements have been used worldwide:

i. Current/noncurrent method,

ii. Monetary/nonmonetary method,

iii. Temporal method, and

iv. Current rate (or closing rate) method.

**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**

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. They consist of marketable securities, inventory, prepaid expenses, investments, non-current assets, and intangible assets; that is, all assets other than cash and receivables. Monetary liabilities are those liabilities whose monetary value cannot fluctuate over time, which is true for most payables.

**Temporal method**

The goal of underlying temporal method s to generate a series of financial statements interpreted from parent currency as if the foreign subsidiary had previously used the parent currency in running 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.