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ASSIGNMENT: SUMMARY OF THE NOTE ON TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS

**STATEMENT OF FINANCIAL EXPOSURE**

Statement of Financial Position or translation, or accounting exposure is an exposure to translation adjustment. It is a situation whereby, as exchange rates change, assets and liabilities translated at the current exchange rate change in value from one Statement of Financial Position to another Statement of Financial Position in terms of the parent company’s reporting currency. 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.

Each of the exposed items on the statement of financial position have a separate translation adjustment. When the foreign currency appreciates, there is a positive translation adjustment on the net assets and a negative translation adjustment on net liability. While, when foreign currency depreciates, there is negative translation adjustment on net assets and a positive translation adjustment on net liabilities. Positive translation adjustments on assets when the 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 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.

**TRANSLATION METHODS**

**Current/Non Current 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.

**Monetary/ Nonmonetary 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.

There is a net asset exposure when cash plus receivables exceed payables, and a net liability exposure when payables exceed cash plus receivables on the foreign operation’s Statement of Financial Position.

**Temporal Method**

Here, the objective 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. Assets and liabilities reported on the foreign operation’s Statement of Financial Position at historical cost are translated at historical exchange rates to yield an equivalent historical cost in parent currency terms. Equally, assets and liabilities reported on the foreign operation’s Statement of Financial Position at a current (or future) value are translated at the current exchange rate to yield an equivalent current value in parent currency terms.

**Current Rate Method**

Here, 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.