**NAME: AGGREY USHANG O.**

**DEPARTMENT: ACCOUNTING**

**MATRIC NO: 16/sms02/006**

**LEVEL: 400**

**COURSE CODE: ACC406**

**ASSIGNMENT: IN NOT MORE THAN 500 WORDS SUMMARISE THE NOTE ON 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. These items are exposed to translation adjustment. Statement of financial of 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. Statement of financial position exposure contrasts with the transaction exposure in the following way: Transaction exposure gives rise to foreign exchange gains and losses that are ultimately realized in cash; translation adjustments that rises from statement of financial position exposure do not directly result in cash inflows or outflows. Each item translated at the current exchange rate is exposed to translation adjustment. In effect, a separate translation adjustment exists for each of these exposed items. However, positive translation adjustments on assets when foreign currency appreciates are offset by negative translation on the liabilities.

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;

|  |  |  |
| --- | --- | --- |
|  | Foreign | Currency |
| Statement of financial position exposure | Appreciates | Depreciates |
| Net Asset | Positive translation adjustment | Negative translation adjustment |
| Net Liabilities | Negative translation adjustment | Positive translation adjustment |

**TRANSLATION METHODS**

* **CURRENT/NONCURRENT 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 rate. There is no theoretical basis underlying this method. This 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 this method, monetary assets and liabilities are translated at the current exchange rate; nonmonetary assets, nonmonetary liabilities and stockholders’ equity accounts are translated at historical exchange rates.

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

* **TEMPORAL METHOD:** The objective of this method 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 underlying concept of this method is that a parent’s entire investment in a foreign operation is exposed to foreign exchange risks and translations of the statement should reflectit.