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SUMMARY OF TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS

As exchange rates change, assets and liabilities translated at the prevailing 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. Each item translated at the current exchange rate is exposed to translation adjustment.

There four (4) types of translation method used worldwide namely:

1. Current/noncurrent method,
2. ii. Monetary/nonmonetary method,
3. iii. Temporal method, and
4. Current rate (or closing rate) method.
5. **Current/Noncurrent Method:** there are rules involved when applying this method such as 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. Previously this method used to be the principal method of translating financial statements but was never adopted under International Financial Reporting Standards.
6. **Monetary/Nonmonetary Method:** Hepworth developed this method in 1956 to correct the lack of theoretical justification of current/noncurrent method. This method translates monetary assets and liabilities at the current exchange rate while the nonmonetary assets, nonmonetary liabilities, and stockholders’ equity accounts are translated at historical exchange rates.
7. **Temporal Method:** the aim 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. Also with the unchanging objectives of the method, 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. Contrarily, 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.
8. **Current Rate Method:** the important notion of this method is thatthe 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. In order to assess the net investment’s exposure to foreign exchange risk:
9. All assets and liabilities of the foreign operation are translated using the current exchange rate.
10. Equity accounts are translated at historical exchange rates.