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**Question**
In not more than 500 words summarise the note on Translation of Foreign Currency Financial Statements.

**Summary**

The note started with the statement of financial exposure, which occurs when assets and liabilities change value being translated at the current exchange rate from one statement of financial position to another( the parent company currency). These items are also exposed to translation adjustment. The note also stated that items exchanged at historical exchange rate don’t change in value and when the statement of financial position is exposed to translation adjustment, it gives rise to foreign gains and losses and don’t directly result in cash inflows and outflows.

The note also explained that it is favorable for net assets when foreign currency appreciates and unfavorable when it depreciates similarly for net liability, it is favorable when foreign currency depreciate and unfavorable when it appreciates. The note also explained the various types of translation method which include;

1. Current and noncurrent method: this method states that current assets and current liabilities are translated at the current exchange rate, while noncurrent asset and noncurrent liabilities and equity (stockholders) account are translated at historical exchange rate, this method is unacceptable in the U.S and not allowed under the international financial reporting standards.
2. Monetary and nonmonetary: Hepworth developed this method in 1956, this method simply states that monetary assets and liabilities are translated at the current exchange rate, nonmonetary assets and liabilities are translated at historical exchange rate. Example of monetary assets are mainly cash and receivables and example of nonmonetary assets include; noncurrent assets, intangible assets, inventory prepaid expenses, etc. under this method there is foreign exchange risk where cash, receivables and payables are carried on the foreign operations statement of financial position. Net assets exposure occurs when cash and receivables exceed payables, and there is net liability when payables exceed cash and receivables.
3. Temporal method: in this method the subsidiary produces its financial statements in the currency of the parent company currency as if the foreign subsidiary had actually used the parent currency in conducting its operations.
4. Current rate method: this method explains that the entire investment of a parent company on foreign operations is exposed to foreign exchange risk and the risk should be reflected in the financial statement of the subsidiary. Under this method all assets and liabilities of the foreign operation are translated using the current exchange rate while equity accounts are translated using the historical exchange rate. The Statement of Financial Position exposure measured by the current rate method is equal to the foreign operation’s net asset position.