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 **TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENT**

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. 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. Exposure to translation adjustment is referred to as Statement of Financial Position.

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

A separate translation adjustment exists for each of these exposed items. However, positive translation adjustments on assets when the foreign currency appreciates are offset by negative translation adjustments on liabilities. If total exposed assets are equal to total exposed liabilities throughout the year, the translation adjustments net to a zero balance. 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. 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**

1. **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 rates
2. **Monetary/Nonmonetary 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. Monetary assets are those assets whose value does not fluctuate over time, Nonmonetary assets are assets whose monetary value can fluctuate. They consist of marketable securities, inventory, prepaid expenses, 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.
3. **Temporal Method:** the temporal method of translation 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.
4. **Current Rate Method**: 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. To measure the net investment’s exposure to foreign exchange risk:
5. All assets and liabilities of the foreign operation are translated using the current exchange rate.

ii. Equity accounts are translated at historical exchange rates.