

UNIT-II
LESSON 5
METHODS OF CURRENCY TRANSLATION

LEARNING OBJECTIVE(S):

To provide an overview of different 'Methods of Currency Translation'

5.1: Methods of Currency Translation

METHODS/GUIDELINES FOR TRANSLATION FOR INCOME STATEMENT ITEMS			
SINGLE RATE METHOD (ALSO KNOWN AS CURRENT RATE METHOD)	MULTIPLE RATES METHOD		
	CURRENT/NON CURRENT METHOD	MONETARY/NON MONETARY METHOD	TEMPORAL METHOD
All items of revenue and expenses are translated at the prevailing rates when these items were recognized. Alternatively, weighted average of the current rates for the period may also be used.	Cost of goods sold is translated at current rate. Depreciation is translated at historical rate. Operating expenses are translated at average rate for the period covered by the expenses. Sales and other revenues are also translated at average rate prevailing	Cost of goods sold and Depreciation are translated at historical rate. Operating expenses are translated at average rate. Sales and other revenues are also translated at average rate prevailing during the period covered by the revenues and expenses.	Cost of goods sold is translated at historical rate. Depreciation is translated at historical rate. Operating expenses are translated at average rate. Sales and other revenues are translated at average rate prevailing at the period covered by the revenues, and expenses.
METHODS FOR TRANSLATION FOR BALANCE SHEET ITEMS			
SINGLE RATE (ALSO KNOWN AS CURRENT RATE METHOD)	MULTIPLE RATE METHOD		
	CURRENT/NON- CURRENT METHOD	MONETARY/NON- MONETARY METHOD	TEMPORAL METHOD
Under this method, Business of the subsidiary is viewed as an investment & not as a part of the business operation of the parent company. So, all its assets and liabilities are translated at current exchange rate, i.e. the rate prevailing on the date of preparation of the balance sheet.	Under this method, Current Assets and Current Liabilities are translated at current rate and the non-current assets and liabilities are translated at historical rate.	Under this method, monetary assets i.e. most liquid assets or near cash items and monetary liabilities, (all liabilities except owners* equity or ownership capital) are translated at current rates and the rest, i.e. non-monetary assets and liabilities are translated at historical rate.	Under this method, items of the balance sheet carried at present or future prices such as the cash and accounts receivable and payables are translated at current rate and the remaining assets and liabilities are translated at historical rate.

SELF-CHECK QUESTION

Elaborate with illustrations different methods of currency translation.