

# Difference between current rate method and temporal method

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Compare Current Rate Method & Temporal Method  
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In the temporal method, assets that generate interest such as property, plant, equipment need regular updates to reveal their market values (Wang, 2005). Translation triggers gains and losses, which are directed into the current consolidated income, making the consolidated earnings unstable.

In the temporal method, exchange rates depend on the time assets and there is the acquisition of liabilities (Wang, 2005). In addition, it depends on the method of valuation in which the current exchange rates determine the value of assets and liabilities. The valuation of assets and liabilities that use historical exchange rates depends on historical costs.

In the current rate method, the current rate is used in the conversion of assets and liabilities while in the temporal method only financial portion of Balance sheet is converted using the current rate

Balance sheet exposure (Current Rate Method) = Total Assets - Total Liabilities

Balance sheet exposure (Temporal Rate Method) = Monetary Assets - Monetary Liabilities

In the temporary method, there is only one fluctuating variable, monetary assets and liabilities. The equity portion (Common Stock (At Historic Rate) + previous period Retained Earnings + NI+ CTA adjustment) depends on the current rate for the current rate method, determining the exposure.

A depreciating local currency setting means that the current rate method has a higher gross profit than that of the temporal method (Wang, 2005).

The temporal method depends on the timing of the asset creation and the

appearance of the assets and liabilities on the accounts. It is more similar to the monetary/non-monetary method as compared to the current rate method.

#### Reference

Wang, P. (2005). *The Economics of Foreign Exchange and Global Finance: with 71 figures and 75 tables*, Volume 10. New York: Springer.