

(Section 3)

International Accounting

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Chapter 8

**Translation of Foreign Currency Financial Statements
Exercises and Problems**

9- Armetis Corporation

a. Current Rate Method

	BRL	Exchange Rate	CAD
Cost of goods sold	450,000	0.420	189,000
Ending inventory	150,000	0.380	57,000

b. Temporal Method

	BRL	Exchange Rate	CAD
Beginning inventory	100,000	0.500	50,000
Purchases	500,000	0.420	210,000
Ending inventory	<u>(150,000)</u>	0.400	<u>(60,000)</u>
Cost of goods sold	<u>450,000</u>		<u>200,000</u>
Ending inventory	150,000	0.400	60,000

14. Gramado Company

Exchange Rates	\$/Cz
January 1, Year 1	0.84
Average for Year 1	0.80
December 31, Year 1	0.75
Average for Year 2	0.72
December 1, Year 2	0.71
December 31, Year 2	0.70

	Cz	Exchange Rate	\$
Sales	540,000	0.72	388,800
Cost of goods sold	<u>(310,000)</u>	0.72	<u>(223,200)</u>
Gross profit	230,000		165,600
Operating expenses	<u>(108,000)</u>	0.72	<u>(77,760)</u>
Income before tax	122,000		87,840
Income taxes	<u>(40,000)</u>	0.72	<u>(28,800)</u>

Net income	<u>82,000</u>		<u>59,040</u>
Retained earnings, 1/1/Y2	154,000	0.80	123,200
Net income	82,000	above	59,040
Dividends	<u>(20,000)</u>	0.71	<u>(14,200)</u>
Retained earnings, 12/31/Y2	<u>216,000</u>		<u>168,040</u>

	Cz	Exchange Rate	\$
Cash	50,000	0.70	35,000
Receivables	100,000	0.70	70,000
Inventory	72,000	0.70	50,400
Plant and equipment	300,000	0.70	210,000
Less: accumulated depreciation	<u>(70,000)</u>	0.70	<u>(49,000)</u>
Total assets	<u>452,000</u>		<u>316,400</u>
Liabilities	186,000	0.70	130,200
Capital stock	50,000	0.84	42,000
Retained earnings, 12/31/Y2	216,000	above	168,040
Cumulative translation adjustment	-		<u>(23,840)</u>
Total liabilities and stockholders' equity	<u>452,000</u>		<u>316,400</u>

	Cz	Exchange Rate	\$
Net assets, 1/1/Y1	50,000	0.84	42,000
Net income, Year 1	<u>154,000</u>	0.80	<u>123,200</u>
Net assets, 12/31/Y1	<u>204,000</u>		165,200
Net assets, 12/31/Y1 at current exchange rate	<u>204,000</u>	0.75	<u>153,000</u>
Translation adjustment, Year 1 (negative)			12,200
Net assets, 1/1/Y2	204,000	0.75	153,000
Net income, Year 2	82,000	0.72	59,040
Dividends, 12/1/Y2	<u>(20,000)</u>	0.71	<u>(14,200)</u>
Net assets, 12/31/Y2	<u>266,000</u>		197,840
Net assets, 12/31/Y2 at current exchange rate	<u>266,000</u>	0.70	<u>186,200</u>
Translation adjustment, Year 2 (negative)			<u>11,640</u>
Cumulative translation adjustment, 12/31/Y2			<u>23,840</u>

15. Brookhurst Company

Exchange Rates	USD/ZAR
January 1, Year 1	0.090
June 1, Year 1	0.095
Average for Year 1	0.096
November 15, Year 1	0.100
December 1, Year 1	0.105
December 31, Year 1	0.110

a. South African rand is functional currency (Current rate method)

	ZAR	Exchange Rate	USD
Sales	1,000,000	0.096	96,000
Cost of goods sold	<u>(600,000)</u>	0.096	<u>(57,600)</u>
Gross profit	400,000		38,400
Depreciation expense	(50,000)	0.096	(4,800)
Other operating expenses	<u>(150,000)</u>	0.096	<u>(14,400)</u>
Income before tax	200,000		19,200
Income taxes	<u>(90,000)</u>	0.096	<u>(8,640)</u>
Net income	<u>110,000</u>		<u>10,560</u>
Retained earnings, 1/1/Y1	-		-
Net income, Year 1	110,000		10,560
Dividends, 6/1/Y1	(20,000)	0.095	(1,900)
Dividends, 12/1/Y1	<u>(20,000)</u>	0.105	<u>(2,100)</u>
Retained earnings, 12/31/Y1	<u>70,000</u>		<u>6,560</u>
Cash	80,000	0.110	8,800
Receivables	150,000	0.110	16,500
Inventory	270,000	0.110	29,700
Plant and equipment	500,000	0.110	55,000
Less: accumulated depreciation	<u>(50,000)</u>	0.110	<u>(5,500)</u>
Total assets	<u>950,000</u>		<u>104,500</u>

Accounts payable	80,000	0.110	8,800
Long-term debt	500,000	0.110	55,000
Common stock	300,000	0.090	27,000
Retained earnings, 12/31/Y1	70,000		6,560
Cumulative translation adjustment	-		7,140
Total liabilities and stockholders' equity	<u>950,000</u>		<u>104,500</u>

Calculation of cumulative translation adjustment

	ZAR	Exchange Rate	USD
Net assets, 1/1/Y1	300,000	0.090	27,000
Net income, Year 1	110,000	above	10,560
Dividends, 6/1/Y1	(20,000)	0.095	(1,900)
Dividends, 12/1/Y1	<u>(20,000)</u>	0.105	<u>(2,100)</u>
Net assets, 12/31/Y1	<u>370,000</u>		33,560
Net assets, 12/31/Y1 at current exchange rate	<u>370,000</u>	0.110	<u>40,700</u>
Translation adjustment, Year 1 (positive)			<u>(7,140)</u>

b. U.S. dollar is functional currency (Temporal method)

	ZAR	Exchange Rate	USD
Sales	1,000,000	0.096	96,000
Cost of goods sold	<u>(600,000)</u>	Sched. A	<u>(56,520)</u>
Gross profit	400,000		39,480
Depreciation expense	(50,000)	0.090	(4,500)
Other operating expenses	(150,000)	0.096	(14,400)
Remeasurement gain (loss)	<u>-</u>	below	<u>(5,940)</u>
Income before tax	200,000		14,640
Income taxes	<u>(90,000)</u>	0.096	<u>(8,640)</u>
Net income	<u>110,000</u>		<u>6,000</u>
Retained earnings, 1/1/Y1	-		-
Net income	110,000		6,000
Dividends, 6/1/Y1	(20,000)	0.095	(1,900)
Dividends, 12/1/Y1	<u>(20,000)</u>	0.105	<u>(2,100)</u>
Retained earnings, 12/31/Y1	<u>70,000</u>		<u>2,000</u>
Cash	80,000	0.110	8,800
Receivables	150,000	0.110	16,500
Inventory	270,000	0.100	27,000
Plant and equipment	500,000	0.090	45,000
Less: accumulated depreciation	<u>(50,000)</u>	0.090	<u>(4,500)</u>
Total assets	<u>950,000</u>		<u>92,800</u>
Accounts payable	80,000	0.110	8,800
Long-term debt	500,000	0.110	55,000
Common stock	300,000	0.090	27,000
Retained earnings, 12/31/Y1	<u>70,000</u>		<u>2,000</u>
Total liabilities and stockholders' equity	<u>950,000</u>		<u>92,800</u>

Schedule A.		Exchange	
Calculation of cost of goods sold	ZAR	Rate	USD
Beginning inventory	-		-
Purchases	870,000	0.0960	83,520
Ending inventory	<u>(270,000)</u>	0.1000	<u>(27,000)</u>
Cost of goods sold	<u>600,000</u>		<u>56,520</u>
Calculation of remeasurement gain (loss)		Exchange	
	ZAR	Rate	USD
Net monetary liabilities, 1/1/Y1	(200,000)	0.090	(18,000)
Increase in monetary assets			
Sales	1,000,000	0.096	96,000
Decrease in monetary assets			-
Purchases of inventory	(870,000)	0.096	(83,520)
Other operating expenses	(150,000)	0.096	(14,400)
Income taxes	(90,000)	0.096	(8,640)
Dividends, 6/1/Y1	(20,000)	0.095	(1,900)
Dividends, 12/1/Y1	<u>(20,000)</u>	0.105	<u>(2,100)</u>
Net monetary liabilities, 12/31/Y1	<u>(350,000)</u>		(32,560)
Net monetary liabilities, 12/31/Y1 at current exchange rate	<u>(350,000)</u>	0.110	<u>(38,500)</u>
Remeasurement loss			<u>5,940</u>