

FA Module 19: Foreign currency translation – homework assignment

(The attached PDF file has better formatting.)

Homework assignment: Foreign currency translation

On December 31, 20X0, ABC, a U.S. based firm, forms XYZ, a subsidiary in Europe. XYZ's local currency is the euro; ABC's presentation currency is the U.S. dollar. The corporate tax rate for XYZ is 20%.

XYZ's 20X1 entries for its statement of profit or loss (in euros) are

- Net revenue: 700
- Cost of goods sold: 220
- Depreciation expense: 120
- Interest expense: 50

XYZ's December 31, 20X1, entries for its statement of financial position (in euros) are

- Cash: 500
- Accounts receivable: 110
- Inventory: 90
- Fixed assets (gross): 1200
- Accumulated depreciation: 120
- Accounts payable: 50
- Long-term debt: 800
- Common stock: 700

XYZ declared and paid dividends to shareholders of 80 in 20X1.

ABC's presentation currency is the U.S. dollar (\$), and XYZ's local currency is the European euro (€). The U.S. dollar to European euro exchange rate at key dates is

- Stock issue date: \$1.20 = €1.00
- Date fixed assets bought: \$1.20 = €1.00
- Average date of purchase for goods sold: \$1.40 = €1.00
- 20X1 average: \$1.50 = €1.00
- Date shareholder dividends declared: \$1.60 = €1.00
- Average date of purchase 12/31/20XX inventory: \$1.70 = €1.00
- December 31, 20XX: \$1.80 = €1.00

Provide for each question (except those specific to a translation method)

- the value in the presentation currency using the current rate method
 - the value in the presentation currency using the temporal method
- A. What is net revenue for 20X1 and accounts receivable at December 31, 20X1?
 - B. What is the cost of goods sold for 20X1 and inventory at December 31, 20X1?
 - C. What is depreciation expense in 20X1 and fixed assets at December 31, 20X1?
 - D. What are interest expense and tax expense for 20X1?
 - E. What is net income in 20X1?
 - F. What are shareholder dividends in 20X1?
 - G. What is retained earnings at December 31, 20X1? (Retained earnings are zero at 12/31/20X0.)
 - H. What is the net asset exposure at December 31, 20X1?
 - I. What is the translated balance sheet at December 31, 20X1?
 - J. What is the net monetary asset exposure at December 31, 20X1?

- K. If XYZ's functional currency is the European euro, what is the translation adjustment for December 31, 20X1, on ABC's financial statements?
- L. If XYZ's functional currency is the U.S. dollar, what is remeasurement gain or loss for December 31, 20X1, on ABC's financial statements?

Check your solutions with the practice problems on the discussion forum. The figures differ, but the formulas are the same. The practice problems are more complex, deriving the accounting entries from transactions. The homework assignment provides all the accounting entries in Euros and derives the translation adjustment and the remeasurement gain or loss.