

FA Module 18: Foreign currency transactions – homework assignment

(The attached PDF file has better formatting.)

Homework assignment: Foreign currency transaction with intervening balance sheet date

ABC buys goods from a XYZ, a supplier in Europe, for resale in the United States.

ABC buys the goods on November 1, 20X1, for €100, on 90 days credit and pays for them on Jan 29, 20X2.

All the goods remain in inventory through January 29, 20X2.

! ABC's functional currency (and presentation currency) is the U.S. dollar.

! XYZ's functional currency (and presentation currency) is the euro.

The foreign currency exchange rates are

! November 1, 20X1: \$1.30 = €1.00

! December 31, 20X1: \$1.70 = €1.00

! January 29, 20X2: \$1.40 = €1.00

- A. What is the inventory on ABC's balance sheet on December 31, 20X1?
- B. What is the revenue on XYZ's balance sheet on December 31, 20X1?
- C. What is ABC's foreign currency transaction gain or loss in 20X1?
- D. What is ABC's foreign currency transaction gain or loss in 20X2?
- E. What is XYZ's foreign currency transaction gain or loss in 20X1?
- F. What is the effect on ABC's net assets on December 31, 20X1?
- G. What is the effect on ABC's net income in 20X1?
- H. What is the effect on ABC's retained earnings and shareholders' equity on December 31, 20X1?

Check your solutions with the practice problems on the discussion forum. The figures differ, but the formulas are the same.