

foreign currency

- ___ 1. Certain balance sheet accounts in a foreign subsidiary of Rose Company at December 31, 1990, have been translated into United States dollars as follows:

	<u>Translated at</u>	
	<u>Current</u> <u>rates</u>	<u>Historical</u> <u>rates</u>
Accounts receivable, current	\$200,000	\$220,000
Accounts receivable, long-term	100,000	110,000
Prepaid insurance	50,000	55,000
Goodwill	80,000	85,000
	<u>\$430,000</u>	<u>\$470,000</u>

What total should be included in Rose's balance sheet at December 31, 1990, for the above items?

- A. \$430,000
B. \$435,000
C. \$440,000
D. \$450,000
- ___ 2. U. S. Importers, Inc., bought 5,000 dolls from Latin America Exporters, S. A., at 12.5 pesos each, when the rate of exchange was \$.08 per peso. How much should U.S. Importers record on its books as the total dollar cost for the merchandise purchased?

- A. \$ 400
B. \$ 625
C. \$5,000
D. \$6,250

- ___ 3. On November 30, 1990, Tyrola Publishing, Company, located in Colorado, executed a contract with Ernest Blyton, an author from Canada, providing for payment of 10% royalties on Canadian sales of Blyton's book. Payment is to be made in Canadian dollars each January 10 for the previous year's sales. Canadian sales of the book for the year ended December 31, 1991, totaled \$50,000 Canadian. Tyrola paid Blyton his 1981 royalties on January 10, 1992. Tyrola's 1991 financial statements were issued on February 1, 1992. Spot rates for Canadian dollars were as follows:

November 30, 1990		\$.87
January 1, 1991	\$.88	
December 31, 1991		\$.89
January 10, 1992	\$.90	

How much should Tyrola accrue for royalties payable at December 31, 1991?

- A. \$4,350
B. \$4,425
C. \$4,450
D. \$4,500

___ 4. Dale, Inc., a U.S. corporation, bought machine parts from Kluger Company of West Germany on March 1, 1991, for 30,000 marks, when the spot rate for marks was \$.4895. Dale's year-end was March 31, 1991, when the spot rate for marks was \$.4845. Dale bought 30,000 marks and paid the invoice on April 20, 1991, when the spot rate was \$.4945. How much should be shown in Dale's income statements as foreign exchange gain or loss for the years ended March 31, 1991 and 1992?

	<u>1991</u>	<u>1992</u>
A.	\$0	\$0
B.	\$0	\$150 loss
C.	\$150 loss	\$0
D.	\$150 gain	\$300 loss

___ 5. On July 1, 19X1, Stone Company lent \$120,000 to a foreign supplier, evidenced by an interest bearing note due on July 1, 19X2. The note is denominated in the currency of the borrower and was equivalent to 840,000 local currency units (LCU) on the loan date. The note principal was appropriately included at \$140,000 in the receivables section of Stone's December 31, 19X1, balance sheet. The note principal was repaid to Stone on the July 1, 19X2, due date when the exchange rate was 8 LCU to \$1. In its income statement for the year ended December 31, 19X2, what amount should Stone include as a foreign currency transaction gain or loss?

- A. \$0
- B. \$15,000 loss.
- C. \$15,000 gain.
- D. \$35,000 loss.

___ 6. On January 1, 19X2, Kiner Company formed a foreign branch. The branch purchased merchandise at a cost of 720,000 local currency units (LCU) on February 15, 19X2. The purchases price was equivalent to \$180,000 on this date. The branch's inventory at December 31, 19X2, consisted solely of merchandise purchased on February 15, 19X2, and amounted to 240,000 LCU. The exchange rate was 6 LCU to \$1 on December 31, 19X2, and the average rate of exchange was 5 LCU to \$1 for 19X2. Assume that the LCU is the functional currency of the branch. In Kiner's December 31, 19X2, balance sheet, the branch inventory balance of 240,000 LCU should be translated into United States dollars at

- A. \$40,000
- B. \$48,000
- C. \$60,000
- D. \$84,000

___ 7. Walker, Inc., a U.S. corporation, ordered a machine from Pfau Company of West Germany on July 15, 1983, for 100,000 marks when the spot rate for marks was \$.4955. Pfau shipped the machine on September 1, 1983, and billed Walker for 100,000 marks. The spot rate was \$.4875 on this date. Walker bought 100,000 marks and paid the invoice on October 25, 1983, when the spot rate was \$.4855. In Walker's income statement for the year ended December 31, 1983, how much should be reported as foreign exchange gain?

- A. \$0
- B. \$ 200
- C. \$ 800
- D. \$1,000

8. A wholly owned subsidiary of Ward, Inc., has certain expense accounts for the year ended December 31, 19X4, stated in local currency units(LCU) as follows:

	<u>LCU</u>
Depreciation of equipment (related assets were purchased January 1, 19X2)	120,000
Provision for doubtful accounts	80,000
Rent	200,000

The exchange rates at various dates are as follows:

	<u>Dollar equivalent of 1 LCU</u>
December 31, 19X4	\$.40
Average for year ended 12/31/X4	.44
January 1, 19X2	.50

Assume that the LCU is the subsidiary's functional currency and that the charges to the expense accounts occurred approximately evenly during the year. What total dollar amount should be included in Ward's 19X4 consolidated income statement to reflect these expenses?

- A. \$160,000
- B. \$168,000
- C. \$176,000
- D. \$183,200

9. Lundy, a U.S. corporation, bought inventory items from a supplier in West Germany on November 5, 1984, for 50,000 marks, when the spot rate was \$.4295. At Lundy's December 31, 1984, year end the spot rate was \$.4245. On January 15, 1985, Lundy bought 50,000 marks at the spot rate of \$.4345 and paid the invoice. How much should Lundy report in its income statements for 1984 and 1985 as foreign exchange gain or (loss)?

<u>1984</u>	<u>1985</u>
A. \$250	(\$500)
B. (\$250)	\$0
C. \$0	(\$250)
D. \$0	\$0

10. On July 1, 19X4, Clark company borrowed 1,680,000 local currency units (LCU) from a foreign lender, evidenced by an interest bearing note due on July 1, 19X5, which is denominated in the currency of the lender. The U.S. dollar equivalent of the note principal was as follows:

<u>Date</u>	<u>Amount</u>
7/1/X4 (date borrowed)	\$210,000
12/31/X4 (Clark's year end)	240,000
7/1/X5 (date repaid)	280,000

In its income statement for 19X5, what amount should Clark include as a foreign exchange gain or loss?

- A. \$70,000 gain.
- B. \$70,000 loss.
- C. \$40,000 gain.
- D. \$40,000 loss.

- ___ 11. On September 1, 1987, Bain Corp. received an order for equipment from a foreign customer for 300,000 local currency units(LCU) when the U.S. dollar equivalent was \$96,000. Bain shipped the equipment on October 15, 1987, and billed the customer for 300,000 LCU when the U.S. dollar equivalent was \$100,000. Bain received the customer's remittance in full on November 16, 1987, and sold the 300,000 LCU for \$105,000. In its income statement for the year ended December 31, 1987, Bain should report a foreign exchange gain of
- A. \$0
 - B. \$4,000
 - C. \$5,000
 - D. \$9,000

- ___ 12. The balance in Bart Corp.'s foreign exchange loss account was \$13,000 at December 31, 1988, before any necessary year-end adjustment relating to the following:

* Bart had a \$20,000 loss resulting from the translation of the accounts of its wholly owned foreign subsidiary for the year ended December 31, 1988.

* Bart had an account payable to an unrelated foreign supplier payable in the local currency of the foreign supplier on January 27, 1989. The U.S. dollar equivalent of the payable was \$100,000 on the November 28, 1988 invoice date, and its was \$106,000 on December 31, 1988.

In Bart's 1988 consolidated income statement, what amount should be included as foreign exchange loss?

- A. \$33,000
 - B. \$27,000
 - C. \$19,000
 - D. \$13,000
- ___ 13. On April 8, 1987, Day Corp. purchased merchandise from an unaffiliated foreign company for 10,000 units of the foreign company's local currency. Day paid the bill in full on March 1, 1988 when the spot rate was \$.45. The spot rate was \$.60 on April 8, 1987 and was \$.55 on December 31, 1987. For the year ended December 31, 1988, Day should report a transaction gain of
- A. \$1,500
 - B. \$1,000
 - C. \$ 500
 - D. \$0

- ___ 14. Certain balance sheet accounts of a foreign subsidiary of Rowan, Inc. at December 31, 1989, have been translated into U.S. dollars as follows:

	Current rates	Translated at Historical rates
	<u> </u>	<u> </u>
Note receivable, long-term	\$240,000	\$200,000
Prepaid rent	85,000	80,000
Patent	150,000	170,000
	<u>\$475,000</u>	<u>\$450,000</u>

The subsidiary's functional currency is the currency of the country in which it is located. What total amount should be included in Rowan's December 31, 1989, consolidated balance sheet for the above accounts?

- A. \$450,000
- B. \$455,000
- C. \$475,000
- D. \$495,000

___ 15. Park Co.'s wholly-owned subsidiary, Schnell Corp., maintains its accounting records in German marks. Because all of Schnell's branch offices are in Switzerland, its functional currency is the Swiss Franc. Remeasurement of Schnell's 1994 financial statements resulted in a \$7,600 gain, and translation of its financial statements resulted in an \$8,100 gain. What amount should Park report as a foreign exchange gain in its income statement for the year ended December 31, 1994?

- A. \$0
- B. \$ 7,600
- C. \$ 8,100
- D. \$15,700

___ 16. On September 22, 1994, Yumi Corp. purchased merchandise from an unaffiliated foreign company for 10,000 units of the foreign company's local currency. On that date, the spot rate was \$.55. Yumi paid the bill in full on March 20, 1995, when the spot rate was \$.65. The spot rate was \$.70 on December 31, 1994. What amount should Yumi report as a foreign currency transaction loss in its income statement for the year ended December 31, 1994?

- A. \$0
- B. \$ 500
- C. \$1,000
- D. \$1,500

___ 17. Fogg Co., a U.S. company, contracted to purchase foreign goods. Payment in foreign currency was due one month after the goods were received at Fogg's warehouse. Between the receipt of goods and the time of payment, the exchange rates changed in Fogg's favor. The resulting gain should be included in Fogg's financial statements as a(an)

- A. Component of income from continuing operations.
- B. Extraordinary item.
- C. Deferred credit.
- D. Separate component of stockholders' equity.

___ 18. A foreign subsidiary of the Satelite corporation has certain balance sheet accounts at December 31, 19X9. Information relating to these accounts in United States dollars is as follows:

	<u>Translated at</u>	
	<u>Current</u> <u>Rates</u>	<u>Historical</u> <u>Rates</u>
Marketable securities carried at cost	\$ 75,000	\$ 85,000
Inventories carried at average cost	600,000	700,000
Refundable deposits	25,000	30,000
Patents	55,000	70,000
	<u>\$755,000</u>	<u>\$885,000</u>

What total should be included in Satelite's balance sheet at December 31, 19X9, as a result of the above information?

- A. \$770,000
- B. \$780,000
- C. \$870,000
- D. \$880,000

___ 19. A wholly owned foreign subsidiary of Union Corporation has certain expense accounts for the year ended December 31, 19X9, stated in local currency units (LCU) as follows:

	<u>LCU</u>
Amortization of patent (related patent was acquired January 1, 19X7)	40,000
Provision for doubtful accounts	60,000
Rent	100,000

The exchange rates at various dates are as follows:

	<u>Dollar equivalent of 1 LCU</u>
December 31, 19X9	\$.20
Average for the year ended December 31, 19X9	.22
January 1, 19X7	.25

What total dollar amount should be included in Union's income statement to reflect the above expenses for the year ended December 31, 19X9?

- A. \$40,000
- B. \$42,000
- C. \$44,000
- D. \$45,200

___ 20. Lindy, a U.S. corporation, bought inventory items from a supplier in West Germany on November 5, 1987 for 100,000 marks, when the spot rate was \$.4295. At Lindy's December 31, 1987 year end, the spot rate was \$.4245. On January 15, 1988, Lindy bought 100,000 marks at the spot rate of \$.4345 and paid the invoice. How much should Lindy report in its income statements for 1987 and 1988 as foreign exchange gain or (loss)?

	<u>1987</u>	<u>1988</u>
A. \$ 500		(\$1,000)
B. \$0		(\$ 500)
C. (\$ 500)		\$ 0
D. (\$1,000)		\$ 500