**CHAPTER 12**

**MULTINATIONAL ACCOUNTING: ISSUES IN FINANCIAL REPORTING AND TRANSLATION OF FOREIGN ENTITY STATEMENTS**

### ANSWERS TO QUESTIONS

**Q12-1**Interest is increasing because of the expected benefits of adopting a single set of high-quality accounting standards, which include:

1. Continued expansion of capital markets across national borders.
2. More rapid development of stable, liquid capital markets.
3. Increased economic growth.
4. Improve ability of investors to evaluate opportunities across national borders.
5. Improve the efficient use of global capital.
6. Reduce reporting costs for corporations that wish to access capital in markets outside of their home country.
7. Increase confidence of financial statement users in the quality of financial reporting.

**Q12-2**The IASB is an independent privately funded accounting standards-setting body. The mission of the IASB is to develop a single set of high-quality, understandable, and enforceable global accounting standards. The IASB is composed of 15 members who each serve a five-year term subject to one reappointment. Members are required to sever all employment relationships that might compromise their independent judgement in setting accounting standards. The IASB is based in London.

**Q12-3**The IASB solicits input from the public when evaluating potential standards and publishes a discussion paper and/or an exposure draft which are subject to comment before issuing a final standard.

**Q12-4**IFRS are already mandated or permitted in over 100 countries around the world. Beginning with 2005, the European Union mandated the use of IFRS for companies listing on stock exchanges in the EU, although the EU also continues to accept statements prepared according to US GAAP. Beginning in 2008, foreign private issuers who list their shares on US stock exchanges may use IFRS in their financial statements without reconciliation to US GAAP.

**Q12-5**The attitude toward the possible use of IFRS in the United States is cautiously supportive (based on the SEC roundtable panellists).

**Q12-6**Potential benefits include:

* Improve global competitive position of US corporations.
* Increase the quality of information available to investors.
* Reduce costs of compliance for companies that are currently using multiple reporting frameworks.
* Enhance global capital markets.
* Companies would have easier access to raising capital in the global markets.
* Because SEC now permits foreign private issuers to file their financial reports using IFRS without reconciliation, not allowing US companies to report under IFRS could result in US companies bearing costs not incurred by foreign private issuers.
* Enhance comparability across companies for users. SEC chairman Cox noted that two-thirds of US investors own securities of foreign companies, a 30 percent increase in the last five years.

**Q12-7**a. Local currency unit. The local currency unit (LCU) is the currency used locally; that is, the currency used in the country in which the company is located.

b. Recording currency. The recording currency is the currency used to record the economic activities in the journals and ledger of the business entity. The recording currency is typically the local currency, but may be some other currency.

c. Reporting currency. The reporting currency is the currency used on the financial statements of the business entity. Typically, the reporting currency is the same as the recording currency.

**Q12-8**The functional currency is normally the currency in which the foreign entity performs most of its cash functions. However, for entities operating in highly inflationary economies, the functional currency is designated as the U.S. dollar regardless of the actual currency used for cash functions. The definition of a highly inflationary economy is one that has a cumulative inflation of approximately 100 percent or more over a 3-year period. **ASC 830** provides six indicators to be used to determine a foreign entity's functional currency: (1) cash flows, (2) sales prices, (3) sales markets, (4) expenses, (5) financing, and (6) intercompany transactions and arrangements. If most of these indicators take place in the foreign currency unit, then the FCU is the functional currency. If most take place in the U.S. dollar, then the dollar is the functional currency.

**Q12-9**Harmonization means to standardize the accounting principles used around the world. For example, the U.S. does not allow a company to revalue its own assets for the effects of inflation. Several countries do, however, allow for this revaluation and subsequent depreciation on the revaluation. Differences in accounting principles from country to country make it difficult to compare business entities doing business in different countries. The harmonization of accounting principles around the world would eliminate many of the problems of combining and consolidating multinational entities. A U.S. company with international investments could then be assured of essentially the same accounting principles being applied; therefore, revenues, profits, and investments in these foreign investments could effectively be compared and contrasted.

**Q12-10**When the local currency is the foreign entity's functional currency, the translation method is used to convert the foreign entity's financial statements into U.S. dollars, the parent company's reporting currency. The translation method uses the current exchange rate for converting all assets and liabilities. The appropriate historical exchange rate is used to convert the Canadian entity's stockholders' equity accounts. The weighted average exchange rate is used to convert the Canadian entity's income statement accounts. The change in the translation adjustment during the period is reported as an element of other comprehensive income on the Statement of Comprehensive Income, and is then accumulated with the other elements of comprehensive income and reported within the stockholders’ equity section of the consolidated balance sheet. The translation adjustment may have a debit or credit balance, depending on the relative change in the exchange rate since the parent acquired the subsidiary.

**Q12-11**Remeasurement is used when the U.S. dollar is the functional currency of the foreign entity. Furthermore, **ASC 830** requires that the financial statements of foreign entities operating in highly inflationary economies be remeasured as if the functional currency were the reporting currency. Remeasurement requires the use of the current exchange rate to convert all monetary assets and liabilities. The historical exchange rate is used to convert nonmonetary assets and the stockholders' equity accounts. The appropriate historical rate is the rate on the later of the two following dates: (1) the day the foreign entity obtained the asset or the day the foreign entity made a transaction affecting the stockholders' equity section such as selling additional stock or declaring dividends, or (2) the day the U.S. parent company purchased the foreign affiliate.

The weighted average exchange rate for the period covered by the income statement is used for revenues or expenses incurred evenly over the period except for those expenses that are allocations of balance sheet items, such as depreciation, cost of goods sold (inventories), or write-offs of goodwill. For cost allocations, the same rate used on the balance sheet to convert the items to U.S. dollars is used on the income statement.

**Q12-12**Translation adjustments are the balancing items to make the debit and credit items equal in the translated trial balance measured in U.S. dollars. The parent company records its share of the translation adjustment in its books through an adjusting entry. The change during the period in the translation adjustment is reported as a component of other comprehensive income in the Statement of Comprehensive Income. The accumulated other comprehensive income is reported as a separate item of stockholders’ equity in the balance sheet. The cumulative translation adjustment may have a debit balance or credit balance. A debit balance usually means that the current exchange rate is less than the historical rate used to translate the stockholders’ equity accounts. This means the dollar is strengthening relative to the foreign currency. A credit balance usually results when the dollar is weakening relative to the foreign currency, and the current exchange rate is higher than the historical exchange rate.

**Q12-13**The remeasurement gain or loss first appears as the trial balance balancing item in the income statement section of the foreign affiliate's trial balance. The parent company recognizes its share of the remeasurement gain through an adjusting entry. Typically, the remeasurement gain is shown in the "Other Income" section of the consolidated income statement.

**Q12-14**The stockholders' equity accounts are translated at the historical rate in effect the date the parent company acquired the foreign affiliate because this aids in the elimination entry process used to prepare the consolidated statements. The investment account on the parent company's books includes the initial investment measured in terms of the exchange rate on the date the parent purchased the foreign affiliate. Thus, the basic eliminating entry to eliminate the investment account against the capital stock and additional paid-in capital includes accounts with the same currency measurement rate. The retained earnings include the effects of revenue and expense transactions, all measured at different rates over time. The beginning translated retained earnings, as measured in U.S. dollars, is taken from last year's ending retained earnings. Net income is obtained from the income statement and dividends are translated using the exchange rate in effect the date the dividends are declared. The translated balances for net income and dividends are then used to adjust beginning retained earnings and come to the new balance for ending retained earnings.

**Q12-15**The current rate method uses the current exchange rate to translate the foreign affiliate's assets and liabilities. The weighted-average exchange rate is used to translate the foreign affiliate's revenues and expenses. This means that the relationships within the assets and liabilities of the foreign affiliate's balance sheet are not changed in the translation process. For example, the current ratio in U.S. dollar statements will be the same as in the foreign currency statements. This results from the use of a constant translation multiplier within the financial statements. However, this relationship does not hold when computing ratios using a balance sheet account and an income statement account: for example, return on equity. These ratios include accounts with different translation exchange rates and will, therefore, produce different results when looking at the foreign currency ratio as compared to the US dollar ratio.

**Q12-16**The excess of cost over book value has two effects: (1) the portion amortized for the period is reported in the income statement, and (2) the unamortized balance is reported in the balance sheet. When the local currency unit is the functional currency, the translation method is used to convert the foreign entity's financial statements into U.S. dollars. **ASC 830** requires that the differential be evaluated in terms of the foreign currency unit. Therefore, the period's amortization, measured in the foreign currency, is translated at the weighted average exchange rate. The remaining unamortized differential is translated at the current exchange rate at the end of the period. The different exchange rates used typically result in a difference when measured in U.S. dollars. This difference becomes part of the translation adjustment.

**Q12-17**Since the parent company controls the foreign subsidiary, it logically must consolidate the entity. By virtue of the fact that the subsidiary resides in a foreign country, the parent bears the risk of fluctuations in the exchange rate. Thus, parent’s share of the translation adjustment should affect the financial statements of the parent. However, the FASB allowed comprehensive income treatment for these transactions so that constant fluctuations in exchange rates would not cause constant variability to the net income of companies with foreign investments. The change during the period in the translation adjustment is reported as a component of other comprehensive income. The translation adjustment is part of the accumulated other comprehensive income that is reported in the stockholders’ equity section of the consolidated balance sheet.

**Q12-18**Not all foreign subsidiaries are consolidated. The parent must be able to exercise control over the foreign subsidiary's operating and financial policies before consolidation is proper. This may not be the case if the foreign subsidiary is located in a country in which the government places significant restrictions on dividend declarations, input from non-local management, or other operating or financing aspects of the business.

**Q12-19**If an investment in a foreign subsidiary is not consolidated, it is reported as a long-term investment on the U.S. company's financial statements, usually under the equity method. The cost method is used to account for the foreign investment, however, if the U.S. investor is not able to exercise significant influence over the foreign investee's operating and financial policies.

**Q12-20** The issue with intercompany transactions is with regard to the amount of unrealized profit. The unrealized profit determined at the time of the initial intercompany transaction is a function of the currency exchange rate at that time. As the rate changes, the underlying accounts may be translated at different exchange rates, thus affecting the computation of unrealized intercompany profit. **ASC 830** states that the intercompany profit should be eliminated based on the exchange rate at the date the intercompany transaction occurred. This eliminates any potential problems from subsequent changes in exchange rates.

### SOLUTIONS TO CASES

**C12-1 Comparison of US GAAP and IFRS**

***Solutions will vary by student depending on the particular items he or she selects.***

**C12-2 Structure of the IASB**

The International Accounting Standards Committee (IASC) Foundation is the parent entity of the IASB. The IASC Foundation is an independent organization. The IASC Foundation trustees appoint the IASB members, exercise oversight, and raise funds to support the organization. The IASC Foundation also appoints the Standards Advisory Council, which advises the IASB and the International financial Reporting Interpretations Committee. The IASB has the sole responsibility for setting accounting standards. These standards are called International Financial Reporting Standards (IFRS).

**C12-3 IASB Deliberations**

***Solutions will vary by student depending on the particular items he or she selects.***

**C12-4 Determining a Functional Currency**

The choice of a functional currency is based on the currency used for six criteria provided in **ASC 830**, as follows: (1) cash flows, (2) sales prices, (3) sales markets, (4) expenses, (5) financing, and (6) intercompany transactions and arrangements. The choice of a functional currency is made by management after a subjective evaluation of these criteria. However, the U.S. dollar is specified as the functional currency in cases in which the foreign affiliate of a U.S. company is located in a country experiencing high inflation (approximately 100 percent or more over a three-year period).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | | | Process of |
|  | Foreign Entity's | Foreign Entity's | | | Restatement into |
|  | Recording Currency | Functional Currency | | | U.S. Dollars |
|  |  |  | | |  |
| 1. | Argentinean peso | U.S. dollar | | | Remeasurement |
|  | **Note:** This case shows that the U.S. dollar is the specified functional currency for foreign subsidiaries located in countries with highly inflationary economies. | | | | |
|  |  | |  |  | |
| 2. | Mexican pesos | | Either peso or | Either | |
|  |  | | dollar, management |  | |
|  |  | | may select either. |  | |
|  | **Note:** This case indicates that the criteria are not always absolute. Management probably would select the specific functional currency on the basis of financial effects, such as effect on earnings per share. | | | | |
|  |  | |  |  | |
| 3. | British pound | | British pound | Translation | |
|  |  | |  |  | |
| 4. | Swiss franc | | European euro | Remeasurement from franc to euro; then translation from euro to dollars | |
|  | **Note:** This case shows that the local currency of the country in which the foreign affiliate is located may not be the foreign affiliate's functional currency; instead, a third currency presents the functional currency. | | | | |

**C12-5 Principles of Consolidating and Translating Foreign Accounts   
[AICPA Adapted]**

a. The rules for consolidating a foreign subsidiary are essentially the same as for a domestic subsidiary. The key element is the degree of control Petie Products has over the financial and operating policies of Cream, Ltd. Typically, a 90 percent stock ownership level would assure the parent company's control of the subsidiary. It is possible, however, that the country of Kolay may have severe restrictions on the decision-making abilities of non-Kolay investors, or that Kolay may have restrictive laws regulating commerce within Kolay. Petie Products' management must evaluate their ability to control the foreign subsidiary. If they do possess the necessary level of control, the foreign subsidiary should be consolidated. If not, then the foreign subsidiary is reported as an investment on the parent company's financial statements.

b. Translation means that the local currency unit is functional. The foreign subsidiary's assets and liabilities are translated using the current exchange rate at the end of 20X7. The stockholders' equity accounts are translated at appropriate historical rates. The income statement accounts are translated at the weighted average exchange rate during 20X7.

The appropriate exchange rates for each of the 10 items are presented below:

1. Current exchange rate at December 31, 20X7

2. Current exchange rate at December 31, 20X7

3. Current exchange rate at December 31, 20X7

4. Current exchange rate at December 31, 20X7

5. Current exchange rate at December 31, 20X7

6. Historical exchange rate at January, 20X4

7. Beginning Retained Earnings is carried forward as a composite from prior years' operations. The beginning Retained Earnings is the prior period's ending Retained Earnings.

8. Average exchange rate for 20X7 (assumes revenues earned evenly throughout year)

9. Average exchange rate for 20X7

10. Average exchange rate for 20X7

**C12-6 Translating and Remeasuring Financial Statements of Foreign Subsidiaries [AICPA Adapted]**

a. The objectives of translating a foreign subsidiary's financial statements are to:

1. Provide information that is generally compatible with the expected economic effects of a rate change on a subsidiary's cash flows and equity.

2. Reflect the subsidiary's financial results and relationships in single currency financial statements, as measured in its functional currency and in conformity with generally accepted accounting principles.

b. Applying different exchange rates to the various financial statement accounts causes the restated financial statements to be unbalanced. ‘Unbalanced’ means that the debits will not equal the credits in the subsidiary's trial balance prepared in U.S. dollars. The amount required to bring the restated financial statements into balance is termed the gain or loss from the translation or remeasurement. The gain or loss from remeasuring Wahl A's financial statements is reported in the consolidated income statement. The gain or loss arising from translating Wahl F's financial statements (described as a translation adjustment) is reported as a component of comprehensive income and then accumulated with other comprehensive income items and reported under stockholders' equity in the consolidated balance sheet.

c. The functional currency is the foreign currency or the parent's currency that most closely correlates with the following economic indicators:

1. Cash flow indicators

2. Sales price indicators

3. Sales market indicators

4. Expense indicators

5. Financing indicators

6. Intercompany transactions and arrangement indicators

d. All accounts relating to Wahl A's equipment—the equipment, accumulated depreciation, and depreciation expense accounts—are remeasured by using the exchange rate prevailing between the U.S. and Australian dollars at the later of the two following dates: (1) the date at which Wahl Co. acquired its investment in Wahl A, or (2) the date(s) the equipment was purchased by Wahl A. This exchange rate is referred to as the historical rate.

All accounts relating to Wahl F's equipment are translated by using the current exchange rates prevailing between the U.S. dollar and the European euro. For the equipment cost and the accumulated depreciation, the current exchange rate at December 31, 20X5, should be used for translation. Depreciation expense is translated at an appropriate weighted average exchange rate for 20X5.

# C12-7 Translation Adjustment and Comprehensive Income

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| a. |  | | Statement of income for the year, for the subsidiary | | |  |
|  | | |  | | |  |
| Subsidiary Statement of Income  Year Ended December 31, 20XX | | | | | | |
|  | | | Sales | | | $ 560,000 |
|  | | | Cost of Sales | | | (285,000) |
|  | | | Gross Profit | | | $ 275,000 |
|  | | | Operating Expenses | | | (140,000) |
|  | | | Income from Operations | | | $ 135,000 |
|  | | | Consolidated Net Income to Controlling Interest | | | $ 135,000 |
|  | | |  | | |  |
|  | | |  | | |  |
| b. | | | Statement of comprehensive income for the year, for the subsidiary | | | |
|  | | |  | | |  |
| Subsidiary  Statement of Comprehensive Income  Year Ended December 31, 20XX | | | | | | |
|  | | | Consolidated Net Income to Controlling Interest | | | $ 135,000 |
|  | | | Other Comprehensive Income: | | |  |
|  | | | Translation Adjustment | | | (12,000) |
|  | | | Comprehensive Income | | | $ 123,000 |
|  | | |  | | |  |
|  | | |  | | |  |
| c. | | | Balance sheet as of December 31, for the subsidiary | | | |
|  | | |  | | |  |
| Subsidiary  Balance Sheet  December 31, 20XX | | | | | | |
|  | | | Assets | | |  |
|  | | | | | Cash | $   50,000 |
|  | | | | | Receivables | 24,700 |
|  | | | | | Inventories | 60,300 |
|  | | | | | Property, Plant, and Equipment (net) | 328,000 |
|  | | | | | Total Assets | $ 463,000 |
|  | | | | |  |  |
|  | | | | Liabilities and Stockholders’ Equity | |  |
|  | | | | | Current Payables | $   16,000 |
|  | | | | | Long-Term Payables | 181,000 |
|  | | | | | Capital Stock | 100,000 |
|  | | | | | Retained Earnings | 258,000 |
|  | | | | | Accumulated Other Comprehensive Income: |  |
|  | | | | | Translation Adjustment | (92,000) |
|  | | | | | Total Liabilities and Stockholders’ Equity | $ 463,000 |
|  | | | | |  |  |
|  | | Note: The end-of-year retained earnings ($258,000) comprises the January 1 balance of $135,000, plus net income of $135,000, less dividends of $12,000. | | | | |

**C12-7** (continued)

d. **ASC 220** allows for either the one-statement format for the combined statement of income and comprehensive income, or the two-statement format for a statement of income and a separate statement of comprehensive income. Both formats must include all the elements of comprehensive income. The one-statement format presents the other comprehensive income elements immediately below net income.

The two-statement format presents a separate statement of income as was done prior to **ASC 220**. The statement of income ends with net income. Then, a separate statement of comprehensive income begins with net income, followed with the elements of other comprehensive income, and ends with comprehensive income.

**C12-8 Changes in the Cumulative Translation Adjustment Account**

Johnson & Johnson Company applied the concepts presented in the chapter for translating the trial balances of its foreign subsidiaries. The resulting cumulative translation adjustment has changed dramatically from a credit balance of $134 million at the end of 20X1 to a debit balance of $338 million at the end of 20X3.

The translation adjustment is related to the translated net asset balance (assets minus liabilities) of the foreign subsidiaries. Several factors could account for the decrease in the net assets of Johnson & Johnson's foreign subsidiaries, as follows:

1. The foreign subsidiaries could be increasing their local liabilities, i.e., taking out more local debt.

2. The foreign subsidiaries could be decreasing their local assets, i.e., not maintaining their physical capital through reinvestment.

3. The direct exchange rate of the dollar versus the local currency units of the countries in which the company has foreign subsidiaries has been decreasing over time (i.e., the dollar had strengthened versus the local currency units).

Question **d.** can be used to demonstrate these factors. Remember that it is assumed that the translated stockholders' equity, other than the accumulated other comprehensive income (AOCI) from the translation adjustment, remained constant at $500 million for each of the three years. The following condensed balance sheets can be presented:

|  |  |  |  |
| --- | --- | --- | --- |
| 20X1 Translated Balance Sheets of All Foreign Subsidiaries | | | |
| Net assets | $634 |  | |
|  | | Stockholders’ equity:  Other than AOCI  AOCI Translation  Adjustment | $ 500  134 |
|  | |  | |
| 20X2 Translated Balance Sheets of All Foreign Subsidiaries | | | |
| Net assets | $354 |  | |
|  | | Stockholders’ equity:  Other than AOCI  AOCI Translation  Adjustment | $ 500  (146) |
|  | |  | |
| 20X3 Translated Balance Sheets of All Foreign Subsidiaries | | | |
| Net assets | $162 |  | |
|  | | Stockholders’ equity:  Other than AOCI  AOCI Translation  Adjustment | $ 500  (338) |

**C12-8** (continued)

If the direct exchange rate decreased over the two-year period, the translated net assets would decrease, thus causing a decrease (debit change) in the translation adjustment. The direct exchange rate would decrease if the dollar were strengthening versus the local currency units of the countries in which the company had foreign subsidiaries. Other causes for the decrease in the translated net assets would be a decrease in local assets, or an increase in local liabilities.

Johnson & Johnson Company did make several changes in its foreign investment portfolio during 20X2 and 20X3 that would have resulted in a change in the combined stockholders' equity of the company's foreign investments. During 20X3, the company acquired approximately $266 million in European companies. In 20X2, the company acquired approximately $47 million in Japanese companies. The company completed relatively minor sales of foreign subsidiaries and operations during 20X2 and 20X3.

Thus, it appears that the major reasons for the significant debit change in the accumulated other comprehensive income—translation adjustment account over the two-year period was that the foreign subsidiaries were increasing their local debt, and that the U.S. dollar was strengthening versus the local currency units of the foreign countries in which Johnson & Johnson Company had subsidiaries. A more specific analysis would require knowledge of the amount of the foreign investments in each country, the balance of the local assets and local liabilities of each of the foreign subsidiaries, and the knowledge of the exchange rates for the dollar versus the foreign currencies of the countries in which the company has invested.

**C12-9 Pros and Cons of Foreign Investment**

The focus of this case is to consider the variables involved with the business decision of expanding a company's production and/or marketing investment in a foreign country. Many of the variables would be similar to those considered in the decision to increase a company's physical capital in the U.S. But, some additional variables should be considered for the foreign country such as: home-country laws, the political and economic environment, the accounting and tax laws, the status of labor organization, the cost-of-living and prevailing wages, the supply of trained labor forces (including local management personnel), and the different cultural aspects that might impact on obtaining the factors of production or on the markets for the company's goods. Some companies make investment in foreign production facilities in order to have a production capability closer to a foreign market. Thus transportation costs of the finished goods are decreased, while the company is able to increase overall revenue and income.

Many companies go to non-U.S. production sources because of the lower costs for labor. Thus, if the company produces a labor-intensive product, the economics of the decision may favor foreign production. In addition, as tariffs are reduced, U.S. companies may find it more advantageous to move their production facilities to non-U.S. locations. One possible outcome is that the costs of the finished goods to U.S. consumers would be lower for goods manufactured outside the U.S. However, an argument often raised in the political arena is that unemployed U.S. consumers would not be able to purchase the products.

The U.S. government has proposed retraining programs for dislocated workers who lose their jobs because the company has closed the U.S. production facility. Students should be encouraged to develop some new and novel approaches to solving the problem of the general change in the types of new jobs being created in the U.S. economy.

# C12-10 Determining an Entity’s Functional Currency

MEMO

To: Garry Parise, CFO, Maxima Corporation

From: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, CPA, Controller’s Department

Re: Functional Currency of Luz Maxima

According to **ASC 830**, the functional currency for a company is the primary currency that is generated by cash inflows and used for cash outflows. Further, it is the currency the country that is primary economic environment of the company’s business operations as indicated by items such as sales, and expense, and financing activities.

Because Luz Maxima initially did business exclusively with Maxima Corporation and these transactions were denominated in the U.S. dollar, its functional currency was originally determined to be the U.S. dollar. However, it appears that changes in Luz Maxima’s operation over the past five years may result in a change in the functional currency from the U.S. dollar to the Mexican peso.

Appendix A of **ASC 830** provides indicators that should be considered in determining a foreign subsidiary’s functional currency. Among the indicators that may be relevant for evaluating the functional currency of Luz Maxima are sales, expense, and financing indicators.

* Sales market indicators – Luz Maxima now sells a significant amount of product in Mexico and South America. These transactions are denominated in the peso.
* Expense indicators – Luz Maxima obtains a significant amount of materials from local suppliers.
* Financing indicators – Luz Maxima obtained long-term debt financing and a line of credit from banks in Mexico.

To the extent indicators are mixed and Luz Maxima also has sales, expenses, and financing transactions denominated in the U.S. dollar, **ASC 830** states that management should make the final determination as to the functional currency. **ASC 830** also indicates that, while it is desirable for the functional currency to be used consistently, if economic facts change, it may be appropriate to change the determination of the functional currency.

Management should assess all aspects of Luz Maxima’s operation to determine the most appropriate and relevant functional currency for this subsidiary. If a decision is made to change the functional currency from the U. S. dollar to the Mexican peso, Luz Maxima’s current financial statements should be converted to U.S. dollars using the current rate translation method. Any adjustment that occurs as a result of translating nonmonetary assets using the current rate method should be reported as a component of other comprehensive income.

Authoritative support for the above memo can be found in ASC 830.

**C12-11 Accounting for the Translation Adjustment**

MEMO

To: Renee Voll, Controller

From: \_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, CPA

Re: Translation Adjustment for Valencia subsidiary

Since Sonoma has sold 30% of the investment in our Spanish subsidiary, the balance of the cumulative translation adjustment, included in consolidated stockholders’ equity, should be reduced proportionately.

**ASC 830** normally does not require that changes in the translation adjustment be included in earnings. Prior to the liquidation of an investment in a subsidiary, the FASB believes that the effects of such translation adjustments are uncertain and should not be included in income. However, when there is a sale or liquidation of a subsidiary, the amount of the translation adjustment that is included in equity should be removed from equity and should be reported as part of the gain or loss in the period in which the transaction occurs.

Although Sonoma has not completely liquidated the investment in Valencia, the company is still required to recognize a portion of the translation adjustment in computing the gain or loss. According to **ASC 830**, a pro rata portion of the accumulated translation adjustment that is attributable to the subsidiary must be included in the calculation of the gain or loss on the sale of a portion of the subsidiary.

Therefore, the gain on the sale of the Valencia investment should be reduced by 30% of the (debit balance) cumulative translation adjustment related to this investment. Sonoma should disclose the amount by which the gain is decreased because of the adjustment for the cumulative translation adjustment.

In the presentation of comprehensive income, the adjustment to the translation adjustment should be identified as a reclassification adjustment so that the same amount is not included in both net income and in comprehensive income.

Authoritative support for the above memo can be found in the following references:

ASC 830

ASC 220

ASC 830

**SOLUTIONS TO EXERCISES**

**E12-1 Multiple-Choice Translation and Remeasurement [AICPA Adapted]**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Foreign Currency | |  | U.S. Dollar | | | |
|  | is Functional Currency | |  | is Functional Currency | | | |
|  |  |  |  |  |  | | |
| 1. | **a** – | $215,000 |  | **b** – | $225,000 | | |
|  |  |  |  |  |  | | |
|  |  |  |  |  | ($100,000 + $50,000 + $30,000 | | |
|  |  |  |  |  | + $45,000) | | |
|  |  |  |  |  |  | | |
|  |  |  |  |  |  | | |
| 2. | **c** – | 400,000 LCU x $0.44 = $176,000 |  | **d** – | 120,000 LCU x $0.50 | = $  60,000 | |
|  |  |  |  |  | 80,000 LCU x $0.44 | =    35,200 | |
|  |  |  |  |  | 200,000 LCU x $0.44 | =   88,000 | |
|  |  |  |  |  |  | $183,200 | |
|  |  |  |  |  |  | | |
|  |  |  |  |  |  | | |
| 3. | **a** – | Indirect rates used |  | **c** – | 170,000 LCU / 1.5 LCU | | = $113,333 |
|  |  |  |  |  | 90,000 LCU / 1.6 LCU | | =     56,250 |
|  |  | 260,000 LCU / 1.8 LCU = $144,444 |  |  |  | | $169,583 |
|  |  |  |  |  |  | | |
|  |  |  |  |  |  | | |
| 4. | **d** – | 25,000 LCU / 2 LCU = $12,500 |  | **b** – | 25,000 LCU / 2.2 LCU | | = $  11,364 |
|  |  |  |  |  |  | | |
|  |  |  |  |  |  | | |
| 5. | **a** |  |  | **d** |  | | |
|  |  |  |  |  |  | | |
|  |  |  |  |  |  | | |
| 6. | **a** |  |  | **c** |  | | |
|  |  |  |  |  |  | | |
|  |  |  |  |  |  | | |
| 7. | **a** – | $755,000 |  | **c** – | $870,000 | | |
|  |  |  |  |  |  | | |
|  |  | (All assets are translated |  |  | ($75,000 + $700,000 + $25,000 | | |
|  |  | at current rate) |  |  | + $70,000) | | |

**E12-2 Multiple-Choice Questions on Translation and Foreign Currency Transactions [AICPA Adapted]**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Foreign Currency | |  |  | U.S. Dollar | |
|  |  | is Functional Currency | |  |  | is Functional Currency | |
|  |  |  |  |  |  |  |  |
| 1. | **b** – | $10,000 |  |  | **d** – | $40,000 |  |
|  |  |  |  |  |  |  |  |
|  |  | $120,000 | = 2/15/X2 $ value |  |  | $10,000 | = Foreign currency |
|  |  | (110,000) | = 12/31/X1 $ value |  |  |  | transaction gain |
|  |  | $ 10,000 | = Foreign exchange |  |  | 30,000 | = Remeasurement gain |
|  |  |  | gain |  |  | $40,000 | = Foreign exchange |
|  |  |  |  |  |  |  | gain |
|  |  |  |  |  |  |  |  |
| 2. | **d** – | $17,000 |  |  | **b** – | $10,000 |  |
|  |  |  |  |  |  |  |  |
|  |  | $13,000 | = Preadjusted foreign |  |  | $13,000 | = Preadjusted foreign |
|  |  |  | exchange loss |  |  |  | exchange loss |
|  |  | 4,000 | = Foreign currency |  |  | 4,000 | = Foreign currency |
|  |  |  | transaction loss |  |  |  | transaction loss |
|  |  |  | ($60,000 - $64,000) |  |  | (7,000) | = Remeasurement gain |
|  |  | $17,000 | = Foreign exchange |  |  | $10,000 | = Net foreign |
|  |  |  | loss |  |  |  | exchange loss |
|  |  |  |  |  |  |  |  |
| 3. | **c** – | $21,000 |  |  | **a** – | $41,000 |  |
|  |  |  |  |  |  |  |  |
|  |  | $15,000 | = Preadjusted foreign |  |  | $15,000 | = Preadjusted foreign |
|  |  |  | exchange loss |  |  |  | exchange loss |
|  |  | 6,000 | = Foreign currency |  |  | 6,000 | = Foreign currency |
|  |  |  | transaction loss |  |  |  | transaction loss |
|  |  |  | ($100,000 - $106,000) |  |  | 20,000 | = Remeasurement gain |
|  |  | $21,000 | = Foreign exchange |  |  | $41,000 | = Net foreign |
|  |  |  | loss |  |  |  | exchange loss |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 4. | **a** – | When the remeasurement method is used, monetary accounts are restated at the exchange rate at the balance sheet date, while nonmonetary accounts are restated using the exchange rate(s) at the date(s) the transaction(s) occurred which are reflected in the account balance. In this question, bonds payable and accrued liabilities are both monetary accounts and would be restated using the current exchange rate. Trading securities represent a nonmonetary account, however, Trading securities would be restated using the current rate because the account balance is stated at the market values at the balance sheet date. Inventories are also a nonmonetary asset. Since they are stated at cost, a historical exchange rate would be used to restate inventories. | | | | | |

**E12-2** (continued)

|  |  |  |
| --- | --- | --- |
| 5. | **b** – | The current rate method of translation allows the use of a weighted average exchange rate for revenues and expenses that occur throughout the year. Since both sales and wages expense occur throughout the year, a weighted average exchange rate can be used for translation. |
|  |  |  |
| 6. | **a** – | For hedges of net investments in a foreign entity, the amount of the change in fair value of the hedging instrument is recorded to other comprehensive income that then becomes part of the accumulated other comprehensive income. The change in the translation adjustment during the period is reported as a component of other comprehensive income and then carried forward to be accumulated in the stockholders’ equity section of the balance sheet with the other components of other comprehensive income. Therefore, in this case in which a hedge of a net investment in a foreign entity is used, the exchange gain on the hedge is reported along with the change in the translation adjustment. |

**E12-3 Matching Key Terms**

|  |  |
| --- | --- |
| 1. | H |
|  |  |
| 2. | G |
|  |  |
| 3. | F |
|  |  |
| 4. | D |
|  |  |
| 5. | E |
|  |  |
| 6. | B |
|  |  |
| 7. | C |
|  |  |
| 8. | B |
|  |  |
| 9. | D |
|  |  |
| 10. | E |
|  |  |
| 11. | J |
|  |  |
| 12. | C |

**E12-4 Multiple-Choice Questions on Translation and Remeasurement**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 1. | **b** – | Investment cost | $160,000 |  |
|  |  | Less: |  |  |
|  |  | Book and fair values of sub's net assets |  |  |
|  |  | 680,000 ringitts x $0.21 x 0.90 = | 128,520 |  |
|  |  | Goodwill | $ 31,480 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. | **c** – |  | | | |  | | | | | |  | |  |
|  |  |  | | Dollars | | | | | | Ringitts | | | | |
|  |  | Goodwill | | $10,500 |  | |  | | | RM50,000 | ($10,500 / $.21) | | | |
|  |  | Impairment | | 1,100 | (RM5,000 x $0.22) | | | | | 5,000 | (RM 50,000 / 10) | | | |
|  |  |  | |  | |  | |  | |  | | | | |
| 3. | **a** – | Impairment loss = $10,500 / 10 = $1,050 | | | | | | | | | | | | |
| 4. | **b** – | Sub’s Net Income (€25,000 x $1.24) | | | | | |  | | $31,000 | | |
|  |  | Less: |  | | |  | |  | |  | | |
|  |  | Goodwill Impairment Loss | | | | | | | |  | | |
|  |  | (€35,000 x 1.24 x 0.1) | | | | |  | |  | 4,340 | | |
|  |  | Income from Sub | | | | |  | |  | $  26,660 | | |
|  |  | Goodwill of €35,000 calculated as follows: | | | | | | | |  | | |
|  |  | Amount paid for Common Stock  ($402,000 / $1.2) | | | | |  | |  | €335,000 | | |
|  |  | Less: Fair value of identifiable assets | | | | |  | |  | €300,000 | | |
|  |  | Goodwill | | | | |  | |  | € 35,000 | | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | **d** – | €5,000 x $1.30 = $6,500 | | | |  | |  |
| 6. | **d** – | Investment cost on January 1, 20X5 | | | |  | | $402,000 |
|  |  | Less: |  | |  |  | |  |
|  |  | Book and fair values of sub’s net assets: | | | | | |  |
|  |  | €300,000 x $1.20 | | |  | |  | 360,000 |
|  |  | Goodwill | | |  | |  | $  42,000 |
|  |  |  | |  |  | |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Dollars | | |  | Euros | | |
|  |  | Goodwill | $42,000 |  | |  | €35,000 | ($42,000 / $1.20) |
|  |  | Impairment | 4,340 | (€3,500 x $1.24) | |  | 3,500 | (€35,000 / 10) |
|  |  | Balance | $37,660 |  | |  | €31,500 |  |
|  |  |  |  |  | |  |  |  |
|  |  | Translated |  |  | |  |  |  |
|  |  | balance | $41,580 | (€31,500 x $1.32) | |  |  |  |
|  |  |  |  | |  |  |  | | |
|  |  | Translation adjustment: $41,580 minus $37,660 = $3,920 – use for | | | | | | | |
|  |  | question 7. | | | | | | | |

|  |  |  |  |
| --- | --- | --- | --- |
| 7. | **b** – | Translation adjustment from |  |
|  |  | translating the trial balance | $12,000cr |
|  |  | Translation adjustment from |  |
|  |  | translating goodwill | 3,920cr |
|  |  | Total translation adjustment | $15,920cr |

**E12-5 Translation**

|  |  |  |  |
| --- | --- | --- | --- |
| RoadTime Company  Trial Balance Translation  December 31, 20X1 | | | |
|  | Swiss | Translation | U.S. |
|  | Francs | Rate | Dollars |
|  |  |  |  |
| Cash | SFr    7,000 | 0.80 | $ 5,600 |
| Accounts Receivable (net) | 20,000 | 0.80 | 16,000 |
| Receivable from Popular Creek | 5,000 | 0.80 | 4,000 |
| Inventory | 25,000 | 0.80 | 20,000 |
| Plant and Equipment | 100,000 | 0.80 | 80,000 |
| Cost of Goods Sold | 70,000 | 0.75 | 52,500 |
| Depreciation Expense | 10,000 | 0.75 | 7,500 |
| Operating Expense | 30,000 | 0.75 | 22,500 |
| Dividends Paid | 15,000 | 0.77 | 11,550 |
| Total Debits | SFr282,000 |  | $219,650 |
|  |  |  |  |
| Accumulated Depreciation | SFr 10,000 | 0.80 | $ 8,000 |
| Accounts Payable | 12,000 | 0.80 | 9,600 |
| Bonds Payable | 50,000 | 0.80 | 40,000 |
| Common Stock | 60,000 | 0.73 | 43,800 |
| Sales | 150,000 | 0.75 | 112,500 |
| Total | SFr282,000 |  | $213,900 |
| Accumulated Other Comprehensive |  |  |  |
| Income — Translation |  |  |  |
| Adjustment (credit) |  |  | 5,750 |
| Total Credits |  |  | $219,650 |

# E12-6 Proof of Translation Adjustment

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | | Popular Creek Corporation and Subsidiary  Proof of Translation Adjustment  Year Ended December 31, 20X1 | | | | | | | | | | | |
|  | | | | |  | | | Translation | | | U.S. | | |
|  | | | | | SFr | | | Rate | | | Dollars | | |
|  | | | | |  | | |  | | |  | | |
| Net assets at beginning of year | | | | | SFr60,000 | | | 0.73 | | | $ 43,800 | | |
|  | | | | |  | | |  | | |  | | |
| Adjustment for changes in net | | | | |  | | |  | | |  | | |
| asset position during year: | | | | |  | | |  | | |  | | |
| Net income for year | | | | | 40,000 | | | 0.75 | | | 30,000 | | |
| Dividends paid | | | | | (15,000) | | | 0.77 | | | (11,550) | | |
| Net assets translated at: | | | | |  | | |  | | |  | | |
| Rates during year | | | | |  | | |  | | | $ 62,250 | | |
| Rates at end of year | | | | | SFr85,000 | | | 0.80 | | | 68,000 | | |
|  | | | | |  | | |  | | |  | | |
| Change in other comprehensive income - | | | | |  | | |  | | |  | | |
| translation adjustment during year - | | | | |  | | |  | | |  | | |
| net increase | | | | |  | | |  | | | $  5,750 | | |
| Accumulated other comprehensive | | | | |  | | |  | | |  | | |
| income — translation adjustment — | | | | |  | | |  | | |  | | |
| January 1 | | | | |  | | |  | | | -0- | | |
|  | | | | |  | | |  | | |  | | |
| Change in other comprehensive income — | | | | | | | |  | | |  | | |
| translation adjustment | | | | |  | | |  | | |  | | |
| December 31 (credit) | | | | |  | | |  | | | $ 5,750 | | |
|  | | | | |  | | |  | | |  | | |
|  | | | | |  | | |  | | |  | | |
| b. | The change in the translation adjustment of $5,750 is included as a credit in the other comprehensive income on the Statement of Comprehensive Income. The other comprehensive income is then accumulated and reported in the stockholders’ equity section of the consolidated balance sheet. | | | | | | | | | | | |
|  | | | | | | |  | | |  |  | | |
| Supporting computations: | | | | | | |  | | |  |  | | |
|  | | | | | | |  | | |  |  | | |
| Net income: | | | | | | |  | | |  |  | | |
|  | | | | | | |  | | |  |  | | |
|  | | |  | Balance Sheet, 12/31/X1 | | | | | | | | | |
| Sales | | | SFr150,000 | Net Assets | | | $68,000 | | Common Stock | | | $ 43,800 | |
| CGS | | | (70,000) |  | | |  | | Ret. Earn.\* | | 18,450 | | |
| Depreciation | | | (10,000) |  | | |  | | AOCI | | 5,750 | | |
| Oper. Expenses | | | (30,000) | Total | | | $68,000 | | Total | | $ 68,000 | | |
| Net Income | | | SFr 40,000 |  | | |  | |  | |  | | |
|  | | |  |  | | Retained earnings, 1/1/X1 | | | | | $        -0- | | |
|  | | |  |  | | Net income | | | | | 30,000 | | |
|  | | |  |  | | Dividends | | | | | (11,550) | | |
|  | | |  |  | | \*Retained earnings, 12/31/X1 | | | | | $ 18,450 | | |

**E12-7 Remeasurement**

|  |  |  |  |
| --- | --- | --- | --- |
| RoadTime Company  Trial Balance Remeasurement  December 31, 20X1 | | | |
|  | Swiss |  | U.S. |
|  | Francs | Rate | Dollars |
|  |  |  |  |
| Cash | SFr     7,000 | 0.80 | $ 5,600 |
| Accounts Receivable (net) | 20,000 | 0.80 | 16,000 |
| Receivables from Popular Creek | 5,000 | 0.80 | 4,000 |
| Inventory | 25,000 | 0.77 | 19,250 |
| Plant and Equipment | 100,000 | 0.74 | 74,000 |
| Cost of Goods Sold | 70,000 | (a) | 52,000 |
| Depreciation Expense | 10,000 | 0.74 | 7,400 |
| Operating Expense | 30,000 | 0.75 | 22,500 |
| Dividends Paid | 15,000 | 0.77 | 11,550 |
| Total | SFr282,000 |  | $212,300 |
| Remeasurement Loss |  |  | 1,000 |
| Total Debits |  |  | $213,300 |
|  |  |  |  |
| Accumulated Depreciation | SFr  10,000 | 0.74 | $    7,400 |
| Accounts Payable | 12,000 | 0.80 | 9,600 |
| Bonds Payable | 50,000 | 0.80 | 40,000 |
| Common Stock | 60,000 | 0.73 | 43,800 |
| Sales | 150,000 | 0.75 | 112,500 |
| Total Credits | SFr282,000 |  | $213,300 |
|  |  |  |  |
|  |  |  |  |
|  | Swiss |  | U.S. |
| (a) Cost of Goods Sold: | Francs | Rate | Dollars |
|  |  |  |  |
| Beginning Inventory | SFr      -0- | 0.75 | $      -0- |
| Purchases | 95,000 | 0.75 | 71,250 |
| Goods Available for Sale | SFr 95,000 |  | $ 71,250 |
| Less: Ending Inventory | (25,000) | 0.77 | (19,250) |
| Cost of Goods Sold | SFr 70,000 |  | $ 52,000 |

**E12-8 Proof of Remeasurement Gain (Loss)**

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Popular Creek Corporation and Subsidiary  Proof of Remeasurement Loss  Year Ended Dec. 31, 20X1 | | |
|  |  | | |
|  | Schedule 1  Statement of Net Monetary Position | | |
|  | | End of | Beginning |
|  | | Year | of Year |
| Monetary Assets: | |  |  |
| Cash | | SFr   7,000 | SFr  60,000 |
| Accounts Receivable (net) | | 20,000 |  |
| Receivables from Popular Creek | | 5,000 |  |
| Total | | SFr 32,000 | SFr  60,000 |
|  | |  |  |
| Less Monetary Liabilities: | |  |  |
| Accounts Payable | | SFr  12,000 | SFr       -0- |
| Bonds Payable | | 50,000 | -0- |
| Total | | SFr(62,000) | SFr        -0- |
| Net Monetary Assets | |  | SFr  60,000 |
|  | |  |  |
| Net Monetary Liabilities | | SFr  30,000 |  |
|  | |  |  |
| Change in net monetary investment during 20X1 | |  | SFr (90,000) |

|  |  |  |  |
| --- | --- | --- | --- |
| Schedule 2  Analysis of Changes in Monetary Accounts | | | |
|  |  | Exchange | U.S. |
|  | SFr | Rate | Dollars |
| Exposed net monetary asset |  |  |  |
| Position – January 1 | SFr 60,000 | 0.73 | $  43,800 |
| Adjustments for changes in the net |  |  |  |
| monetary position during the year: |  |  |  |
| Increases: |  |  |  |
| From operations: |  |  |  |
| Sales | 150,000 | 0.75 | 112,500 |
| From other sources | -0- |  | -0- |
| Decreases: |  |  |  |
| From operations: |  |  |  |
| Purchases | (95,000) | 0.75 | (71,250) |
| Cash expenses | (30,000) | 0.75 | (22,500) |
| From dividends | (15,000) | 0.77 | (11,550) |
| From purchase of |  |  |  |
| plant and equipment | (100,000) | 0.74 | (74,000) |
| Net monetary position prior to |  |  |  |
| remeasurement at year-end rates |  |  | $(23,000) |
| Exposed net monetary liability |  |  |  |
| Position – December 31 | SFr(30,000) | 0.80 | (24,000) |
| Remeasurement loss |  |  | $  (1,000) |

**E12-8** (continued)

**Note:** The issuance of the bonds payable has no effect on net monetary assets. Cash, a monetary asset, is increased and bonds payable, a monetary liability, is increased.

The Remeasurement Loss results from the decrease in the net monetary asset position during a period in which the exchange rate has increased. The end-of-period remeasured net liability position of $24,000 is more than the net monetary liability position of $23,000 remeasured using the rates in effect at the times of the transactions.

b. The remeasurement loss is included in the period's consolidated statement of income.

# E12-9 Translation with Strengthening U.S. Dollar

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| a. | RoadTime Company  Trial Balance Translation  December 31, 20X1 | | | | |
|  | | Swiss | |  | U.S. |
|  | | Francs | | Rate | Dollars |
|  | |  | |  |  |
| Cash | | SFr    7,000 | | 0.73 | $    5,110 |
| Accounts Receivable (net) | | 20,000 | | 0.73 | 14,600 |
| Receivable from Popular Creek | | 5,000 | | 0.73 | 3,650 |
| Inventory | | 25,000 | | 0.73 | 18,250 |
| Plant and Equipment | | 100,000 | | 0.73 | 73,000 |
| Cost of Goods Sold | | 70,000 | | 0.75 | 52,500 |
| Depreciation Expense | | 10,000 | | 0.75 | 7,500 |
| Operating Expense | | 30,000 | | 0.75 | 22,500 |
| Dividends Paid | | 15,000 | | 0.74 | 11,100 |
| Total | | SFr282,000 | |  | $208,210 |
| Accumulated Other Comprehensive | |  | |  |  |
| Income — Translation Adjustment | |  | |  |  |
| (debit) | |  | |  | 4,850 |
| Total Debits | | SFr282,000 | |  | $213,060 |
|  | |  | |  |  |
| Accumulated Depreciation | | SFr   10,000 | | 0.73 | $   7,300 |
| Accounts Payable | | 12,000 | | 0.73 | 8,760 |
| Bonds Payable | | 50,000 | | 0.73 | 36,500 |
| Common Stock | | 60,000 | | 0.80 | 48,000 |
| Sales | | 150,000 | | 0.75 | 112,500 |
| Total Credits | | SFr282,000 | |  | $213,060 |
|  | |  | |  |  |
|  | |  | |  |  |
|  | |  | |  |  |
| **NOT REQUIRED:** Proof of Translation Adjustment | | | | | |
|  | | |  | Translation | U.S. |
|  | | | SFr | Rate | Dollars |
|  | | |  |  |  |
| Net assets at beginning of year | | | SFr  60,000 | 0.80 | $  48,000 |
| Adjustment for changes in net asset | | |  |  |  |
| position during year: | | |  |  |  |
| Net income for year | | | 40,000 | 0.75 | 30,000 |
| Dividends paid | | | (15,000) | 0.74 | (11,100) |
| Net assets translated at: | | |  |  |  |
| Rates during year | | |  |  | $  66,900 |
| Rates at end of year | | | SFr85,000 | 0.73 | (62,050) |
| Change in other comprehensive | | |  |  |  |
| Income — translation adjustment | | |  |  |  |
| during year — net decrease | | |  |  | $   4,850 |
| Accumulated other comprehensive income — | | | |  |  |
| translation adjustment — January 1 | | |  |  | -0- |
| Accumulated other comprehensive income — | | | |  |  |
| translation adjustment — December 31 | | |  |  |  |
| (debit) | | |  |  | $    4,850 |

**E12-9** (continued)

b. In Exercise 12-5, the U.S. dollar weakened against the Swiss franc; i.e., the direct exchange rate increased during the 20X1 year. Thus, the $11,000 credit translation adjustment was the balancing item because the translated net assets of the foreign subsidiary were higher at the end of the year than the net assets at the beginning of the year adjusted for changes in the net assets that occurred during the year (income less dividends).

In Exercise 12-9, the U.S. dollar strengthened against the Swiss franc during the year; i.e., the direct exchange rate decreased during the year. Thus, the $4,850 debit translation adjustment was the balancing item in Exercise 12-9 because the translated net assets at the end of the year were lower than the translated net assets at the beginning of the year as adjusted for changes during the year. The periodic change in the translation adjustment of $4,850 is reported as a component of other comprehensive income on the Statement of Comprehensive Income, and is then accumulated with other comprehensive income items and reported in the stockholders’ equity section of the consolidated balance sheet.

# E12-10 Remeasurement with Strengthening U.S. Dollar

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| a. | RoadTime Company  Trial Balance Remeasurement  December 31, 20X1 | | | |
|  | | Swiss |  | U.S. |
|  | | Francs | Rate | Dollars |
|  | |  |  |  |
| Cash | | SFr    7,000 | 0.73 | $    5,110 |
| Accounts Receivable (net) | | 20,000 | 0.73 | 14,600 |
| Receivable from Popular Creek | | 5,000 | 0.73 | 3,650 |
| Inventory | | 25,000 | 0.74 | 18,500 |
| Plant and Equipment | | 100,000 | 0.77 | 77,000 |
| Cost of Goods Sold | | 70,000 | (a) | 52,750 |
| Depreciation Expense | | 10,000 | 0.77 | 7,700 |
| Operating Expense | | 30,000 | 0.75 | 22,500 |
| Dividends Paid | | 15,000 | 0.74 | 11,100 |
| Total | | SFr282,000 |  | $212,910 |
| Remeasurement Loss | |  |  | 550 |
| Total Debits | |  |  | $213,460 |
|  | |  |  |  |
| Accumulated Depreciation | | SFr 10,000 | 0.77 | $    7,700 |
| Accounts Payable | | 12,000 | 0.73 | 8,760 |
| Bonds Payable | | 50,000 | 0.73 | 36,500 |
| Common Stock | | 60,000 | 0.80 | 48,000 |
| Sales | | 150,000 | 0.75 | 112,500 |
| Total Credits | | SFr282,000 |  | $213,460 |
|  | |  |  |  |
|  | |  |  |  |
|  | |  |  |  |
|  | | Swiss |  | U.S. |
| (a) Cost of Goods Sold: | | Francs | Rate | Dollars |
|  | |  |  |  |
| Beginning Inventory | | SFr      -0- | 0.80 | $      -0- |
| Purchases | | 95,000 | 0.75 | 71,250 |
| Goods Available for Sale | | SFr 95,000 |  | $ 71,250 |
| Less: Ending Inventory | | (25,000) | 0.74 | (18,500) |
| Cost of Goods Sold | | SFr 70,000 |  | $ 52,750 |

**E12-10** (continued)

b. In Exercise 12-5, the U.S. dollar weakened against the Swiss franc; i.e., the direct exchange rate increased during the 20X1 year. The $1,000 remeasurement loss resulted from the decrease in the net monetary items during a period in which the exchange rate increased.

In Exercise 12-10, the U.S. dollar strengthened against the Swiss franc during the year. Note that the remeasurement gain or loss is computed only on monetary items. In E12-10, the net monetary items decreased during the year. Thus, the $550 remeasurement loss in E12-10 results from the fact that the remeasured net monetary liability position at the end of the year is greater than the net monetary position prior to remeasurement at year-end rates. This is shown in the proof below which was not required for the exercise.

|  |  |  |  |
| --- | --- | --- | --- |
| **NOT REQUIRED:** Proof of Remeasurement Loss | | |  |
|  | |  |  |
| Schedule 1  Statement of Net Monetary Position | | |
|  |  |  |
|  | End of | Beginning |
|  | Year | of Year |
| Monetary Assets: |  |  |
| Cash | SFr    7,000 | SFr 60,000 |
| Accounts Receivable (net) | 20,000 |  |
| Receivables from Popular Creek | 5,000 |  |
| Total | SFr  32,000 | SFr 60,000 |
|  |  |  |
| Less Monetary Liabilities: |  |  |
| Accounts Payable | SFr 12,000 | SFr      -0- |
| Bonds Payable | 50,000 | -0- |
| Total | SFr(62,000) | SFr      -0- |
| Net Monetary Assets 1/1/X1 |  | SFr  60,000 |
|  |  |  |
| Net Monetary Liabilities 12/31/X1 | SFr  30,000 |  |
|  |  |  |
| Change in net monetary |  |  |
| investment during 20X1 |  | SFr (90,000) |

**E12-10** (continued)

**NOT REQUIRED:** Proof of Remeasurement Loss (continued)

|  |  |  |  |
| --- | --- | --- | --- |
| Schedule 2  Analysis of Changes in Monetary Accounts | | | |
|  |  | Exchange | U.S. |
|  | SFr | Rate | Dollars |
| Exposed net monetary asset |  |  |  |
| Position — January 1 | SFr 60,000 | 0.80 | $  48,000 |
| Adjustments for changes in the net |  |  |  |
| monetary position during the year: |  |  |  |
| Increases: |  |  |  |
| From operations: |  |  |  |
| Sales | 150,000 | 0.75 | 112,500 |
| From other sources | -0- |  | -0- |
| Decreases: |  |  |  |
| From operations: |  |  |  |
| Purchases | (95,000) | 0.75 | (71,250) |
| Cash expenses | (30,000) | 0.75 | (22,500) |
| From dividends | (15,000) | 0.74 | (11,100) |
| From purchase of |  |  |  |
| plant and equipment | (100,000) | 0.77 | (77,000) |
| Net monetary position prior to |  |  |  |
| remeasurement at year-end rates |  |  | $(21,350) |
| Exposed net monetary liability |  |  |  |
| Position--December 31 | SFr(30,000) | 0.73 | (21,900) |
| Remeasurement loss |  |  | $    (550) |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **E12-11 Remeasurement and Translation of Cost of Goods Sold** | | | |
|  |  |  |  |
| a. Remeasurement: |  |  |  |
|  |  |  | U.S. |
|  | Euros | Rate | Dollars |
| Beginning Inventory | € 220,000 | 1.29015 | $283,833 |
| Purchases | 846,000 | 1.39655 | 1,181,481 |
| Goods Available | 1,066,000 |  | 1,465,314 |
| Less Ending Inventory | (180,000) | 1.45000 | (261,000) |
| Cost of Goods Sold | € 886,000 |  | $1,204,314 |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| b. Translation: |  |  |  |
|  |  |  | U.S. |
|  | Euros | Rate | Dollars |
| Cost of Goods Sold | € 886,000 | 1.39655 | $1,237,343 |

**E12-12 Equity-Method Entries for a Foreign Subsidiary**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| a. | Cash | | 19,680 |  |
|  | Investment in Thames Company | |  | 19,680 |
|  | Receive dividend: | |  |  |
|  | $19,680 = £15,000 x $1.64 x 0.80 | |  |  |
|  |  | |  |  |
| b. | Investment in Thames Company | | 48,000 |  |
|  | Income from Subsidiary | |  | 48,000 |
|  | Record equity accrual: | |  |  |
|  | $48,000 = $60,000 x 0.80 | |  |  |
|  |  | |  |  |
|  | Other Comprehensive Income — | |  |  |
|  | Translation Adjustment | | 5,120 |  |
|  | Investment in Thames Company | |  | 5,120 |
|  | Parent's share of subsidiary's translation adjustment: | | | |
|  | $5,120 = $6,400 x 0.80 | |  |  |
| c. | | British | Exchange | U.S. |
|  | | Pounds | Rate | Dollars |
| Income Statement: | |  |  |  |
| Differential Jan. 1, 20X8 | | £30,000 | 1.60 | $48,000 |
| (10-year life) | |  |  |  |
| Amortization for 20X8 | | (3,000) | 1.63 | (4,890) |
| Remaining balance | | £27,000 |  | $43,110 |
|  | |  |  |  |
| Balance Sheet: | |  |  |  |
| Remaining balance on Dec. 31 | |  |  |  |
| translated at year-end rate | | £27,000 | 1.65 | 44,550 |
| Difference to translation adjustment | |  |  | $ 1,440 |
|  | |  |  |  |
| Note that the amount of the differential necessary for the balance sheet is $44,550, while the amount, without any adjustment, would be $43,110. Therefore, the differential portion of the parent company’s investment must be increased by $1,152 ($1,440 x 0.80) through a debit to the Investment in Thames Company account and a corresponding credit to the Other Comprehensive Income—Translation Adjustment account. The differential adjustment adjusts to the amount needed for the balance sheet. | | | | |
|  | |  |  |  |
|  | Investment in Thames Company | | 1,152 |  |
|  | Other Comprehensive Income — | |  |  |
|  | Translation Adjustment | |  | 1,152 |
|  | Recognize translation adjustment for increase in differential. | | | |
|  |  | |  |  |
| d. | Income from Subsidiary | | 3,912 |  |
|  | Investment in Thames Company | |  | 3,912 |
|  | Amortization of trademark for 20X1: $3,912 = £3,000 x $1.63 x 0.80 | | | |

e. Other comprehensive income reports the periodic change in the translation adjustment. For 20X8, this would be the sum of a debit of $5,120 which is the parent company’s portion of the translation adjustment resulting from translating the subsidiary’s trial balance, less the $1,152 translation adjustment that is made only by the parent company due to the adjustment of the differential. Therefore, other comprehensive income would report $3,968 ($5,120 - $1,152) due to foreign translations.

**E12-13 Effects of a Change in the Exchange Rate** — **Translation and   
Other Comprehensive Income**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| a. | Direct and indirect exchange rates: | |  | |  |  |
|  |  | |  | |  |  |
|  |  | | Direct ($/R1) | |  | Indirect (R/$1) |
|  | January 1, 20X6 | | $0.03333 = R1 | |  | R30 = $1 |
|  | December 31, 20X6 | | $0.02857 = R1 | |  | R35 = $1 |
|  | December 31, 20X7 | | $ 0.025 = R1 | |  | R40 = $1 |
|  |  | |  | |  |  |
| The dollar strengthened during 20X6 because the number of rupees one U.S. dollar could acquire at the end of the year (35) is greater than the number of rupees that could be acquired at the beginning of the year (30); therefore, the value of the dollar has increased relative to the rupee during 20X6. The dollar continued to strengthen during 20X7. | | | | | | |
|  |  |  | |  | |  |
| b. | Translated December 31, 20X6, balance sheet: | | |  | |  |
|  |  |  | |  | |  |
|  |  | Subsidiary’s | | Direct | | Translated |
|  |  | Trial Balance | | Exchange | | Trial Balance |
|  |  | (in rupees) | | Rate | | (in $) |
|  | Cash | R   100,000 | | $0.02857 | | $  2,857 |
|  | Receivables | 450,000 | | $0.02857 | | 12,857 |
|  | Inventory | 680,000 | | $0.02857 | | 19,428 |
|  | Fixed assets | 1,000,000 | | $0.02857 | | 28,570 |
|  | Total | R2,230,000 | |  | | $63,712 |
|  | Accumulated other |  | |  | |  |
|  | comprehensive income — |  | |  | |  |
|  | translation adjustment (debit) |  | |  | | 2,903 |
|  | Total debits |  | |  | | $66,615 |
|  |  |  | |  | |  |
|  | Current payables | R   260,000 | | $0.02857 | | $  7,428 |
|  | Long-term debt | 1,250,000 | | $0.02857 | | 35,713 |
|  | Common stock | 500,000 | | $0.03333 | | 16,665 |
|  | Retained earnings | 220,000 | | $0.03095\* | | 6,809 |
|  | Total credits | R2,230,000 | |  | | $66,615 |
|  |  |  | |  | |  |
|  | \*$.03095 = average of beginning and ending exchange rates, rounded  to 4 decimal points: $.030945 = [($.03333 + $.02857) / 2]  (Not required: Proof of translation adjustment (debit) of $2,903) | | | | | |
|  |  |  | |  | |  |
|  |  |  | | Translation | |  |
|  |  | Rupees | | Rate | | Dollars |
|  | Net assets, 1/1/X6 | R500,000 | | $0.03333 | | $16,665 |
|  | Adjustment for changes in |  | |  | |  |
|  | net assets during year: |  | |  | |  |
|  | Net income | 220,000 | | $0.03095 | | 6,809 |
|  | Net assets translated at: |  | |  | |  |
|  | Rates during year |  | |  | | $23,474 |
|  | Rate at end of year | R720,000 | | $0.02857 | | (20,570) |
|  | Change in translation |  | |  | |  |
|  | adjustment during year (debit) |  | |  | | $ 2,904\* |
|  | \*Difference of $1 ($2,904 - $2,903) due to rounding of exchange rates. | | | | | |

**E12-13** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| c. | Translated December 31, 20X7, balance sheet: | | | |  |
|  |  |  |  | |  |
|  |  | Subsidiary’s | Direct | | Translated |
|  |  | Trial Balance | Exchange | | Trial Balance |
|  |  | (in rupees) | Rate | | (in $) |
|  | Cash | R    80,000 | $0.025 | | $   2,000 |
|  | Receivables | 550,000 | $0.025 | | 13,750 |
|  | Inventory | 720,000 | $0.025 | | 18,000 |
|  | Fixed assets | 900,000 | $0.025 | | 22,500 |
|  | Total | R2,250,000 |  | | $56,250 |
|  |  |  |  | |  |
|  | AOCI translation adjustment (debit) | |  | | 5,635 |
|  | Total debits |  |  | | $61,885 |
|  |  |  |  | |  |
|  | Current payables | R   340,000 | $0.025 | | $  8,500 |
|  | Long-term debt | 1,100,000 | $0.025 | | 27,500 |
|  | Common stock | 500,000 | $0.03333 | | 16,665 |
|  | Retained earnings | 310,000 | (a) | | 9,220 |
|  | Total credits | R2,250,000 |  | | $61,885 |
|  |  |  |  | |  |
|  |  |  |  | |  |
|  | 1. The retained earnings in dollars would begin with the December 31, 20X6's, dollar balance ($6,809) that would be carried forward. To this would be added 20X7's net income of R90,000, which is the change in retained earnings in rupees multiplied by the average 20X7 exchange rate of $.02679 [($.02857 + $.025)/2] which equals $2,411. Therefore, translated retained earnings on December 31, 20X7, is $9,220 ($9,220 = $6,809 + $2,411). | | | | |
|  | (Not required: Proof of translation adjustment (debit) of $5,635) | | | | |
|  |  |  | |  |  |
|  |  |  | | Translation |  |
|  |  | Rupees | | Rate | Dollars |
|  | Net assets, 1/1/X7 | R720,000 | | $0.02857 | $20,570 |
|  | Adjustment for changes in |  | |  |  |
|  | net assets during year: |  | |  |  |
|  | Net income | 90,000 | | $0.02679 | 2,411 |
|  | Net assets translated at: |  | |  |  |
|  | Rates during year |  | |  | $22,981 |
|  | Other comprehensive income — |  | |  |  |
|  | Rate at end of year | R810,000 | | $0.025 | (20,250) |
|  | Change in other comprehensive |  | |  |  |
|  | Income — translation |  | |  |  |
|  | adjustment during year (debit) |  | |  | $ 2,731 |
|  | Accumulated other comprehensive | | |  |  |
|  | Income — translation adjustment, 1/1/X7 | | |  | 2,904 |
|  | Accumulated other comprehensive | | |  |  |
|  | Income — translation adjustment,12/31/X7 (debit) | | | | $ 5,635 |

d. The $2,731 change in the accumulated other comprehensive income — translation adjustment during 20X7 would be reported as a component of other comprehensive income on 20X7's statement of other comprehensive income.

#### E12-14 Computation of Gain or Loss on Sale of Asset by Foreign Subsidiary

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| a. | Journal entries, in pesos, regarding the land: | | | |  |
|  |  | |  |  |  |
|  | 1/1/X1 | Land | | P2,000,000 |  |
|  |  | Cash | |  | P2,000,000 |
|  |  |  | |  |  |
|  | 12/31/X2 | Cash | | P3,000,000 |  |
|  |  | Land | |  | P2,000,000 |
|  |  | Gain on Sale of Land | |  | P1,000,000 |
|  |  | |  |  |  |
| b. | Amount of transaction gain ($83,333), and remeasurement loss ($33,333): | | | | |
|  |  | |  |  |  |
|  | Note that under remeasurement the nonmonetary items are not adjusted for changes in the exchange rate. Therefore, land will be based on its historical cost of P2,000,000 x $0.10, the direct exchange rate on 1/1/X1, which equals a remeasured basis for the land of $200,000. | | | | |
|  |  | | | | |
|  | The direct exchange rate on 1/1/X1 is $.10 ($1 = P10); on 12/31/X1 is $0.090909 ($1 = P11); and on 12/31/X2 is $0.083333 ($1 = P12). The appropriate exchange rate to use to remeasure the gain on the sale of the land is $0.83333 because the transaction is significant to the subsidiary, solitary to the operations, and occurred on a specific date, the last day of the year. | | | | |
|  |  | |  |  |  |
|  | Remeasured December 31, 20X2 balance sheet: | | | |  |
|  |  | |  |  |  |
|  |  | | Subsidiary’s | Direct | Remeasured |
|  |  | | Trial Balance | Exchange | Trial Balance |
|  |  | | (in pesos) | Rate | (in $) |
|  | Cash | | P 3,000,000 | $0.083333 | $250,000 |
|  | Total | | P 3,000,000 |  | $250,000 |
|  | Remeasurement loss | |  |  | 33,333 |
|  | Total debits | |  |  | $283,333 |
|  |  | |  |  |  |
|  | Common stock | | P 2,000,000 | $0.10 | $200,000 |
|  | Gain on sale of land | | P 1,000,000 | $0.083333 | 83,333 |
|  | Total credits | | P 3,000,000 |  | $283,333 |
|  |  | |  |  |  |
|  | The effect on the parent company’s net income ($50,000 = $83,333 – $33,333) is the same as if the transactions had been transacted in U.S. dollars, which is an objective of the remeasurement method. The equivalent journal entries to those in part a. of the problem, if transacted in U.S. dollars, would be: | | | | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | |  |  |  |
|  | 1/1/X1 | Land (P2,000,000 x $0.10) | | $200,000 |  |
|  |  | Cash | |  | $200,000 |
|  |  |  | |  |  |
|  | 12/31/X2 | Cash (P3,000,000 x $0.08333) | | $250,000 |  |
|  |  | Land | |  | $200,000 |
|  |  | Gain on Sale of Land | |  | $  50,000 |

**E12-14**  (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| c. | | Amount of transaction gain ($83,333), and other comprehensive income effect in 20X2 ($15,151):  To compute the change in the translation adjustment for 20X2, which is an element of other comprehensive income for 20X2, it is necessary to prepare the translated trial balance as of the end of 20X1, as follows:  Translated December 31, 20X1, balance sheet: | | | |
|  | |  |  |  |  |
|  | |  | Subsidiary’s | Direct | Translated |
|  | |  | Trial Balance | Exchange | Trial Balance |
|  | |  | (in pesos) | Rate | (in $) |
|  | | Land | P 2,000,000 | $0.090909 | $181,818 |
|  | | Total | P 2,000,000 |  | $181,818 |
|  | | Accumulated other |  |  |  |
|  | | comprehensive income — |  |  |  |
|  | | translation adjustment (debit) |  |  | 18,182 |
|  | | Total debits |  |  | $200,000 |
|  | |  |  |  |  |
|  | | Common stock | P 2,000,000 | $0.10 | $200,000 |
|  | | Total credits | P 2,000,000 |  | $200,000 |
|  | |  |  |  |  |
|  | | Note that the translation adjustment account has a debit balance of $18,182 as of the end of 20X1. The next step is to translate the subsidiary’s 12/31/X2 trial balance. | | | |
|  | |  |  |  |  |
|  | Translated December 31, 20X2, balance sheet: | | | | |
|  | |  |  |  |  |
|  | |  | Subsidiary’s | Direct | Translated |
|  | |  | Trial Balance | Exchange | Trial Balance |
|  | |  | (in pesos) | Rate | (in $) |
|  | | Cash | P 3,000,000 | $0.083333 | $250,000 |
|  | | Total | P 3,000,000 |  | $250,000 |
|  | | Accumulated other |  |  |  |
|  | | comprehensive income– |  |  |  |
|  | | translation adjustment (debit) |  |  | 33,333 |
|  | | Total debits |  |  | $283,333 |
|  | |  |  |  |  |
|  | | Common stock | P 2,000,000 | $0.10 | $200,000 |
|  | | Gain on sale of land | P 1,000,000 | $0.083333 | 83,333 |
|  | | Total credits | P 3,000,000 |  | $283,333 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  | The change in the translation adjustment during 20X2 is $15,151 ($15,151 = $33,333 - $18,182), which is reported on 20X2's statement of comprehensive income. The stockholders’ equity section of the 12/31/X2 consolidated balance sheet would report the accumulated other comprehensive income which includes the accumulated translation adjustment, as of 12/31/X2, in the amount of $33,333 | | | |

**E12-15\* Intercompany Transactions**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | |  | | Measured in | Measured in |
|  |  | |  | | U.S. Dollars | British Pounds |
|  |  | | Initial inventory transfer | |  |  |
|  |  | | date ($1.60 = £1): | |  |  |
|  |  | | Selling price | |  |  |
|  |  | | (£7,500 = $12,000 / $1.60) | | $12,000 | £7,500 |
|  |  | | Cost to parent | | (8,000) |  |
|  |  | | Intercompany profit | | $  4,000 |  |
|  |  | |  | |  |  |
|  |  | | Balance sheet date | |  |  |
|  |  | | ($1.70 = £1): | |  |  |
|  |  | | Inventory translation | |  |  |
|  |  | | ($12,750 = £7,500 x $1.70) | | $12,750 | £7,500 |
|  |  | |  | |  |  |
|  |  |  | |  | | |
| a. |  | $12,750 | | Inventory of United, Ltd., reported in U.S. dollar | | |
|  |  |  | | trial balance of consolidation worksheet. | | |
|  |  |  | | ($12,750 = £7,500 x $1.70) | | |
|  |  |  | |  | | |
| b. |  | $ 8,750 | | ($8,750 = $12,750 - $4,000 intercompany profit) | | |

**SOLUTIONS TO PROBLEMS**

**P12-16 Parent Company Journal Entries and Translation**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| a. |  |  |  | Canadian | Exchange | U.S. |
|  |  | P |  | Dollars | Rate | Dollars |
|  |  |  |  |  |  |
|  |  | Investment cost | C$150,000 | 0.80 | $120,000 |
|  | 1/1/X1 | Book value of investment |  |  |  |
|  | 100% | on January 1, 20X1 | 90,000 | 0.80 | 72,000 |
|  |  | NB | Differential | C$  60,000 |  | $  48,000 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Canadian | | Exchange | | | U.S. | |
|  |  | Dollars | | Rate | | | Dollars | |
|  |  |  | | |  |  | | |
|  | Income Statement: |  |  | |  |  | |  |
|  | Differential at date of |  |  | |  |  | |  |
|  | acquisition: |  |  | |  |  | |  |
|  | Plant and equipment | C$10,000 |  | | 0.80 | $8,000 | |  |
|  | Trademark |  | C$50,000 | | 0.80 |  | | $40,000 |
|  | Amortization this period: |  |  | |  |  | |  |
|  | Plant and equipment |  |  | |  |  | |  |
|  | (10 years) | (1,000) |  | | 0.75 | (750) | |  |
|  | Trademark (10 years) |  | (5,000) | | 0.75 |  | | (3,750) |
|  | Remaining balance: |  |  | |  |  | |  |
|  | Plant and equipment | C$  9,000 |  | |  | $7,250 | |  |
|  | Trademark |  | C$45,000 | |  |  | | $36,250 |
|  |  |  |  | |  |  | |  |
|  | Balance Sheet: |  |  | |  |  | |  |
|  | Remaining balance on |  |  | |  |  | |  |
|  | 12/31/X1 translated at |  |  | |  |  | |  |
|  | year-end exchange rates: |  |  | |  |  | |  |
|  | Plant and equipment | C$  9,000 |  | | 0.70 | $6,300 | |  |
|  | Trademark |  | C$45,000 | | 0.70 |  | | $31,500 |
|  |  |  |  | |  |  | |  |
|  | Difference to OCI— |  |  | |  |  | |  |
|  | translation adjustment: |  |  | |  |  | |  |
|  | Plant and equipment |  |  | |  | $  950 | |  |
|  | Trademark |  |  | |  |  | | $  4,750 |
|  |  |  |  | |  |  | |  |
|  | Note that the differential adjustment is from the amounts of $7,250 for plant and equipment and from $36,250 for trademark. The required amounts for the consolidated balance sheet are $6,300 for plant and equipment, and $31,500 for trademark. Therefore, in each of these cases, the differential adjustment will reduce the amount of the differential component in the investment account, requiring a credit to the Investment in North Bay Company account with a corresponding debit to the Other Comprehensive Income—Translation Adjustment account. The differential adjustment adjusts to the correct amount necessary to prepare the consolidated balance sheet. | | | | | | | |

**P12-16** (continued)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| b. | Entries on Par Company's books during 20X1: | | | |  |  |
|  |  |  | | |  |  |
|  | (1) | Investment in North Bay Company | | | 120,000 |  |
|  |  | Cash | | |  | 120,000 |
|  |  | Acquire North Bay Company. | | |  |  |
|  |  |  | | |  |  |
|  | (2) | Investment in North Bay Company | | | 15,000 |  |
|  |  | Income from Subsidiary | | |  | 15,000 |
|  |  | Equity in income of subsidiary: | | |  |  |
|  |  | $15,000 = C$20,000 x 0.75 average exchange rate | | | |  |
|  |  |  | | |  |  |
|  | (3) | Foreign Currency Units (C$) | | | 6,000 |  |
|  |  | Investment in North Bay Company | | |  | 6,000 |
|  |  | Dividend from foreign subsidiary: | | |  |  |
|  |  | $6,000 = C$8,000 x 0.75 | | |  |  |
|  |  |  | | |  |  |
|  | (4) | Income from Subsidiary | | | 4,500 |  |
|  |  | Investment in North Bay Company | | |  | 4,500 |
|  |  | Amortization of differential: | | |  |  |
|  |  | Plant and equipment | $  750 |  | |  |
|  |  | Trademark | 3,750 |  | |  |
|  |  | Total | $4,500 |  | |  |
|  |  |  | | |  |  |
|  | (5) | Other Comprehensive Income – Translation Adjustment | | | 5,700 |  |
|  |  | Investment in North Bay Company | | |  | 5,700 |
|  |  | Recognize translation adjustment on differential: | | |  |  |
|  |  | Plant and equipment | $  950 |  | |  |
|  |  | Trademark | 4,750 |  | |  |
|  |  | Total | $5,700 |  | |  |
|  |  |  | | |  |  |
|  |  |  | | |  |  |
|  |  | **Note:** The amount of the differential is being decreased as a result of the translation adjustment. Therefore, the investment account must be credited to reflect this decrease in the portion allocated to the differential. | | | | |
|  |  |  | | |  |  |

**P12-16** (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| c. | Par Company and North Bay Company  Proof of Translation Adjustment  Year Ended December 31, 20X1 | | | |
|  |  | Canadian | Exchange | U.S. |
|  |  | Dollars | Rate | Dollars |
| Net assets at beginning of | |  |  |  |
| year, 1/1/X1 | | C$  90,000 | 0.80 | $72,000 |
|  |  |  |  |  |
| Adjustment for changes in | |  |  |  |
| assets position during year: | |  |  |  |
| Net income for year | | 20,000 | 0.75 | 15,000 |
| Dividends paid | | (8,000) | 0.75 | (6,000) |
|  |  |  |  |  |
| Net assets translated at rates | |  |  |  |
| in effect for those items | |  |  | $81,000 |
|  |  |  |  |  |
| Net assets at end of year | | C$102,000 | 0.70 | 71,400 |
|  |  |  |  |  |
| Change in other comprehensive income — | | |  |  |
| translation adjustment during | |  |  |  |
| year — net decrease (debit) | |  |  | $  9,600 |
|  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | |  |  |  |
| December 31, 20X1 | | |  |  |  |
|  |  | Other Comprehensive Income — Translation Adjustment | | 9,600 |  |
|  |  | Investment in North Bay Company | |  | 9,600 |
|  |  | Parent's share (100%) of translation adjustment from translation of subsidiary's accounts. | | | |
|  |  | |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| d. | | Equivalent U.S. dollar value of C$8,000 |  |  |
|  | | on December 31, 20X1: |  |  |
|  | | C$8,000 x $.70 | $5,600 |  |
|  | | Equivalent U.S. dollar value of C$8,000 |  |  |
|  | | at date of receipt: |  |  |
|  | | C$8,000 x $.75 | 6,000 |  |
|  | | Foreign Currency Transaction Loss | $ 400 |  |
|  |  | |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| December 31, 20X1 | | |  |  |
|  | (7) | Foreign Currency Transaction Loss | 400 |  |
|  |  | Foreign Currency Units (C$) |  | 400 |
|  |  | Recognize exchange loss on foreign currency units held. | | |
|  |  |  |  |  |

**P12-17 Translation, Journal Entries, Consolidated Comprehensive Income, and Stockholders' Equity**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| a. | Vikix Inc.  Trial Balance Translation  December 31, 20X5 | | | |
|  |  | Balance | Exchange | Balance |
|  | Item | Kroner | Rate | Dollars |
|  | Cash | NKr 150,000 | 0.21 | $   31,500 |
|  | Accounts Receivable (net) | 200,000 | 0.21 | 42,000 |
|  | Inventory | 270,000 | 0.21 | 56,700 |
|  | Property, Plant, and Equipment | 600,000 | 0.21 | 126,000 |
|  | Cost of Goods Sold | 410,000 | 0.20 | 82,000 |
|  | Operating Expenses | 100,000 | 0.20 | 20,000 |
|  | Depreciation Expense | 50,000 | 0.20 | 10,000 |
|  | Dividends Paid | 40,000 | 0.19 | 7,600 |
|  | Total Debits | NKr1,820,000 |  | $375,800 |
|  |  |  |  |  |
|  | Accumulated Depreciation | NKr 150,000 | 0.21 | $ 31,500 |
|  | Accounts Payable | 90,000 | 0.21 | 18,900 |
|  | Notes Payable | 190,000 | 0.21 | 39,900 |
|  | Common Stock | 450,000 | 0.18 | 81,000 |
|  | Retained Earnings | 250,000 | 0.18 | 45,000 |
|  | Sales | 690,000 | 0.20 | 138,000 |
|  | Total | NKr1,820,000 |  | $354,300 |
|  | Accumulated Other Comprehensive |  |  |  |
|  | Income — Translation Adjustment |  |  |  |
|  | (credit) |  |  | 21,500 |
|  | Total Credits |  |  | $375,800 |

**P12-17** (continued)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| b. | Entries for 20X5: | | |  | | | | |  | | |
|  |  |  | |  | | | | |  | | |
|  | January 1 | | |  | | | | |  | | |
|  |  | Investment in Vikix Company Common | | 151,200 | | | | |  | | |
|  |  | Cash | |  | | | | | 151,200 | | |
|  |  | Purchase of Vikix Inc. | |  | | | | |  | | |
|  |  |  | |  | | | | |  | | |
|  | July 1 | | |  | | | | |  | | |
|  |  | Cash | | 7,600 | | | | |  | | |
|  |  | Investment in Vikix Company | |  | | | | | 7,600 | | |
|  |  | Dividend received from foreign subsidiary: | | | | | | |  | | |
|  |  | $7,600 = NKr40,000 x $.19 | |  | | | | |  | | |
|  |  |  | |  | | | | |  | | |
|  | December 31 | | |  | | | | |  | | |
|  |  | Investment in Vikix Company Common | | 26,000 | | | | |  | | |
|  |  | Income from Subsidiary | |  | | | | | 26,000 | | |
|  |  | Equity in net income of foreign subsidiary: | | | | | | |  | | |
|  |  | $26,000 = Income of NKr130,000 x $.20 | | |  | | | |  | | |
|  |  |  | |  | | | | |  | | |
|  |  | Investment in Vikix Company Common | | 21,500 | | | | |  | | |
|  |  | Other Comprehensive Income — | |  | | | | |  | | |
|  |  | Translation Adjustment | |  | | | | | 21,500 | | |
|  |  | Parent's share of translation adjustment from translation of subsidiary's accounts: | | | | | | | | | |
|  |  | $21,500 x 1.00 | | | | | | |  | | |
|  |  |  | | | | | | |  | | |
|  |  | Income from Subsidiary | | 3,600 | | | | |  | | |
|  |  | Investment in Vikix Company | |  | | | | | 3,600 | | |
|  |  | Amortization of differential: | |  | | | | |  | | |
|  |  | Property, plant, and equipment | $2,000 | | |  |  | | |
|  |  | Patent | 1,600 | | |  |  | | |
|  |  | Total — see supporting schedule 2 | $3,600 | | |  |  | | |
|  |  |  | |  | | | | |  | | |
|  |  | Investment in Vikix Company Common | | 4,020 | | | | |  | | |
|  |  | Other Comprehensive Income — | |  | | | | |  | | |
|  |  | Translation Adjustment | |  | | | | | 4,020 | | |
|  |  | Translation adjustment applicable to the differential: | | | | | | | | | |
|  |  | Property, plant, and equipment | $2,900 | | |  | |  | | |
|  |  | Patent | 1,120 | | |  | |  | | |
|  |  | Total — see supporting schedule 2 | $4,020 | | |  | |  | | |

**P12-17** (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Schedule 1: Determining the differential for 20X5: | | |  |
|  |  |  |  |  |
|  | Investment cost at January 1, 20X5 |  | $ 151,200 |  |
|  | Less: Book value of net assets acquired on | |  |  |
|  | January 1, 20X5 (NKr700,000 x $.18) | | (126,000) |  |
|  | Differential | | $   25,200 |  |
|  |  | |  |  |
|  | Differential allocated to: | |  |  |
|  | Property, plant, and equipment | | $   18,000 |  |
|  | Patent | | 7,200 |  |
|  | Total | | $   25,200 |  |
|  |  | |  |  |
|  | Schedule 2: Determining the differential amortization for 20X5: | | | |
|  |  |  |  |  |
|  |  | Norwegian | Translation | U.S. |
|  |  | Kroner | Rate | Dollars |
|  | Property, plant, and equipment: |  |  |  |
|  | Income statement: |  |  |  |
|  | Difference at beginning of year | NKr 100,000 | 0.18 | $18,000 |
|  | Amortization for 20X5 |  |  |  |
|  | (NKr100,000 / 10 years) | (10,000) | 0.20 | (2,000) |
|  | Remaining balances | NKr   90,000 |  | $16,000 |
|  |  |  |  |  |
|  | Balance sheet: |  |  |  |
|  | Remaining balance on |  |  |  |
|  | December 31, 20X5, translated |  |  |  |
|  | at year-end exchange rate | NKr   90,000 | 0.21 | 18,900 |
|  | Difference to other comprehensive |  |  |  |
|  | income — translation adjustment |  |  | $  2,900 |
|  |  |  |  |  |
|  | Patent: |  |  |  |
|  | Income statement: |  |  |  |
|  | Difference at beginning of year | NKr   40,000 | 0.18 | $  7,200 |
|  | Amortization for 20X5 |  |  |  |
|  | (NKr40,000 / 5 years) | (8,000) | 0.20 | (1,600) |
|  | Remaining balances | NKr   32,000 |  | $  5,600 |
|  |  |  |  |  |
|  | Balance sheet: |  |  |  |
|  | Remaining balance on |  |  |  |
|  | December 31, 20X5, translated |  |  |  |
|  | at year-end exchange rate | NKr   32,000 | 0.21 | 6,720 |
|  | Difference to other comprehensive |  |  |  |
|  | income — translation adjustment |  |  | $  1,120 |
|  |  |  |  |  |

|  |  |
| --- | --- |
|  | Note that the property, plant, and equipment portion of the differential must be increased from $16,000 to $19,000, requiring a debit of $2,900 to the investment account. The portion of the differential attributable to patent must be increased from $5,600 to $6,720, requiring a debit of $1,120 to the investment account. The corresponding credit is to the Other Comprehensive Income – Translation Adjustment account ($4,020 = $2,900 + $1,120). |

**P12-17** (continued)

|  |  |  |  |
| --- | --- | --- | --- |
| c. | Taft’s consolidated comprehensive income for 20X5: | |  |
|  |  |  |  |
|  | 1. | Income from Taft’s operations for 20X5, exclusive |  |
|  |  | of income from the Norwegian subsidiary | $  275,000 |
|  | 2. | Add: Income from the Norwegian subsidiary for 20X5 | 26,000 |
|  | 3. | Deduct: Amortization of differential for 20X5 | (3,600) |
|  |  | Taft’s Net Income | $  297,400 |
|  | 4. | Add: Translation Adjustment ($21,500 + $4,020) | 25,520 |
|  |  | Taft’s Consolidated Comprehensive Income | $  322,920 |
|  |  |  |  |
| d. | Taft’s consolidated stockholders’ equity at December 31, 20X5: | | |
|  |  |  |  |
|  | 1. | Taft’s stockholders’ equity at Jan. 1, 20X5 | $3,500,000 |
|  | 2. | Add: Net income for 20X5 | 297,400 |
|  | 3. | Deduct: Dividends declared by Taft during 20X5 | (100,000) |
|  | 4. | Add: Accumulated other comprehensive income: |  |
|  |  | Foreign currency translation adjustment | 25,520 |
|  | Consolidated Stockholders’ Equity at Dec. 31, 20X5 | | $3,722,920 |

**P12-18 Remeasurement, Journal Entries, Consolidated Net Income, and Stockholders' Equity**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| a. | | Schedule remeasuring the trial balance into U.S. dollars: | | | | |
|  | |  | |  |  |  |
|  | |  | | Balance | Exchange | Balance |
|  | | Item | Kroner | | Rate | Dollars |
|  | | Cash | NKr     150,000 | | 0.21 | $  31,500 |
|  | | Accounts Receivable (net) | 200,000 | | 0.21 | 42,000 |
|  | | Inventory | 270,000 | | 0.205 | 55,350 |
|  | | Property, Plant, and Equipment | 600,000 | | 0.18\* | 108,000 |
|  | | Cost of Goods Sold | 410,000 | | (a) | 75,450 |
|  | | Operating Expenses | 100,000 | | 0.20 | 20,000 |
|  | | Depreciation Expense | 50,000 | | 0.18\* | 9,000 |
|  | | Dividends Paid | 40,000 | | 0.19 | 7,600 |
|  | | Total | NKr 1,820,000 | |  | $348,900 |
|  | | Remeasurement Loss |  | |  | 900 |
|  | | Total Debits |  | |  | $349,800 |
|  | |  |  | |  |  |
|  | | Accumulated Depreciation | NKr  150,000 | | 0.18\* | $  27,000 |
|  | | Accounts Payable | 90,000 | | 0.21 | 18,900 |
|  | | Notes Payable | 190,000 | | 0.21 | 39,900 |
|  | | Common Stock | 450,000 | | 0.18\* | 81,000 |
|  | | Retained Earnings | 250,000 | | 0.18\* | 45,000 |
|  | | Sales | 690,000 | | 0.20 | 138,000 |
|  | | Total Credits | NKr1,820,000 | |  | $349,800 |
|  | |  | |  |  |  |
|  | | \*0.18 = exchange rate at January 1, 20X5, the date the subsidiary | | | | |
|  | | was acquired by Taft Company | | | | |
|  | |  | |  |  |  |
|  | (a) | | | Norwegian | Exchange | U.S. |
|  | |  | | Kroner | Rate | Dollar |
|  | | Cost of goods sold: | |  |  |  |
|  | | Beginning inventory | |  |  |  |
|  | | (CGS of NKr410,000 + ending | |  |  |  |
|  | | inventory of NKr270,000 | |  |  |  |
|  | | minus purchases of | |  |  |  |
|  | | NKr420,000 = Beg. Inv.) | | NKr 260,000 | 0.18 | $  46,800 |
|  | | Purchases | | 420,000 | 0.20 | 84,000 |
|  | | Cost of goods available | | NKr 680,000 |  | $130,800 |
|  | | Less ending inventory | | (270,000) | 0.205 | (55,350) |
|  | | Cost of goods sold | | NKr410,000 |  | $  75,450 |

**P12-18** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| b. | Journal entries for 20X5: | | |  |  |
|  |  | | |  |  |
|  | January 1 | | |  |  |
|  |  | Investment in Vikix Company Common | | 151,200 |  |
|  |  | Cash | |  | 151,200 |
|  |  | Purchase of Vikix, Inc. | |  |  |
|  |  |  | |  |  |
|  | July 1 | | |  |  |
|  |  | Cash | | 7,600 |  |
|  |  | Investment in Vikix Company Common | |  | 7,600 |
|  |  | Dividend received from foreign subsidiary: | |  |  |
|  |  | $7,600 = NKr40,000 x $.19 | |  |  |
|  |  |  | |  |  |
|  | December 31 | | |  |  |
|  |  | Investment in Vikix Company Common | | 32,650 |  |
|  |  | Income from Subsidiary | |  | 32,650 |
|  |  | Equity in net income of foreign subsidiary: | |  |  |
|  |  | Income from the Norwegian sub: | |  |  |
|  |  | Sales | $138,000 |  |  |
|  |  | Less: |  |  |  |
|  |  | Cost of goods sold | (75,450) |  |  |
|  |  | Operating expenses | (20,000) |  |  |
|  |  | Depreciation expense | (9,000) |  |  |
|  |  | Income | $  33,550 |  |  |
|  |  | Less: Remeasurement loss | (900) |  |  |
|  |  | Income recorded by Taft | $  32,650 |  |  |
|  |  |  |  |  |  |
|  |  | Income from Subsidiary |  | 3,240 |  |
|  |  | Investment in Vikix Company Common | |  | 3,240 |
|  |  | Amortization of the differential | |  |  |
|  |  | (See Schedule 1 below). | |  |  |
|  |  |  | |  |  |
|  | Schedule 1: Determining and amortizing the differential for 20X5: | | | | |
|  |  |  | |  |  |
|  |  | Investment cost at January 1, 20X5 | |  | $151,200 |
|  |  | Book value of net assets acquired | |  |  |
|  |  | on January 1, 20X5 (NKr700,000 x $.18) | |  | (126,000) |
|  |  | Differential | |  | $  25,200 |
|  |  |  | |  |  |
|  |  | Differential allocated to: | |  |  |
|  |  | Property, plant, and equipment | |  | $  18,000 |
|  |  | Patent | |  | 7,200 |
|  |  | Total | |  | $  25,200 |
|  |  |  | |  |  |
|  |  | Amortization for 20X5: | |  |  |
|  |  | Property, plant, and equipment | |  |  |
|  |  | ($18,000 / 10 years) | |  | $    1,800 |
|  |  | Patent ($7,200 / 5 years) | |  | 1,440 |
|  |  | Total | |  | $    3,240 |

**P12-18** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| c. | Consolidated net income for 20X5: | | | |  |
|  |  |  | | |  |
|  | 1. | Income from Taft's operations for 20X5, | | |  |
|  |  | exclusive of income from the Norwegian subsidiary | | | $275,000 |
|  | 2. | Add: Income from the Norwegian subsidiary | | | 32,650 |
|  | 3. | Deduct: Amortization of differential for 20X5 | | | (3,240) |
|  | Consolidated net income for 20X5 | | | | $304,410 |
|  |  |  | | |  |
|  |  |  | | |  |
| d. | Consolidated stockholders' equity at December 31, 20X5: | | | | |
|  |  |  | | |  |
|  | 1. | Taft's stockholders' equity at January 1, 20X5 | | | $3,500,000 |
|  | 2. | Add: Consolidated net income for 20X5 | | | 304,410 |
|  | 3. | Deduct: Dividends declared by Taft during 20X5 | | | (100,000) |
|  | Consolidated stockholders' equity at December 31, 20X5 | | | | $3,704,410 |
|  |  | |  |  |  |
|  |  | |  |  |  |
| **P12-19 Proof of Translation Adjustment** | | | |  |  |
|  |  | |  |  |  |
|  |  | | Norwegian | Exchange | U.S. |
|  |  | | Kroner | Rate | Dollars |
|  |  | |  |  |  |
|  | Net assets at beginning of year | | NKr700,000 | 0.18 | $126,000 |
|  | Adjustments for changes | |  |  |  |
|  | in net assets position during | |  |  |  |
|  | 20X5: | |  |  |  |
|  | Net income | | 130,000 | 0.20 | 26,000 |
|  | Dividends paid | | (40,000) | 0.19 | (7,600) |
|  |  | |  |  |  |
|  |  | |  |  |  |
|  | Net assets translated at: | |  |  |  |
|  | Rates during year | |  |  | $144,400 |
|  | Rates at end of year | | NKr790,000 | 0.21 | 165,900 |
|  |  | |  |  |  |
|  | Change in other comprehensive income — | | |  |  |
|  | translation adjustment during year | | |  | $  21,500 |
|  | Accumulated other comprehensive income — | | |  |  |
|  | translation adjustment — January 1 | | |  | -0- |
|  | Accumulated other comprehensive income — | | |  |  |
|  | translation adjustment — December 31 (credit) | | |  | $  21,500 |

# P12-20 Remeasurement Gain or Loss

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Proof of remeasurement loss for 20X5: | | |  |  |
|  |  |  |  |  |
|  |  | Norwegian | Exchange | U.S. |
|  |  | Kroner | Rate | Dollars |
|  |  |  |  |  |
|  | Exposed net monetary liability |  |  |  |
|  | position at January 1 | NKr(60,000) | 0.18 | $(10,800) |
|  |  |  |  |  |
|  | Adjustments for changes in |  |  |  |
|  | net monetary position during 20X5: |  |  |  |
|  |  |  |  |  |
|  | Increases: |  |  |  |
|  | From operations: |  |  |  |
|  | Sales | NKr690,000 | 0.20 | 138,000 |
|  |  |  |  |  |
|  | Decreases: |  |  |  |
|  | From operations: |  |  |  |
|  | Purchases | (420,000) | 0.20 | (84,000) |
|  | Operating expenses | (100,000) | 0.20 | (20,000) |
|  | From dividends | (40,000) | 0.19 | (7,600) |
|  |  |  |  |  |
|  | Net monetary asset position |  |  |  |
|  | prior to remeasurement at |  |  |  |
|  | year-end rates |  |  | $ 15,600 |
|  |  |  |  |  |
|  | Exposed net monetary asset |  |  |  |
|  | position at December 31 | NKr 70,000 | 0.21 | (14,700) |
|  | Remeasurement loss |  |  | $     900 |

**P12-21 Translation and Calculation of Translation Adjustment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| a. |  | |  |  |  |
|  | DaSilva Company  Trial Balance Translation  December 31, 20X4 | | | | |
|  |  | |  |  |  |
|  |  | |  | Exchange | U.S. |
|  |  | | Reals | Rate | Dollars |
|  |  | |  |  |  |
|  | Cash | BRL    57,700 | | 0.20 | $   11,540 |
|  | Accounts Receivable (net) | 82,000 | | 0.20 | 16,400 |
|  | Inventory | 95,000 | | 0.20 | 19,000 |
|  | Prepaid Insurance | 2,400 | | 0.20 | 480 |
|  | Plant and Equipment | 350,000 | | 0.20 | 70,000 |
|  | Intangible Assets | 30,000 | | 0.20 | 6,000 |
|  | Cost of Goods Sold | 230,000 | | 0.25 | 57,500 |
|  | Insurance Expense | 3,200 | | 0.25 | 800 |
|  | Depreciation Expense | 32,500 | | 0.25 | 8,125 |
|  | Amortization Expense | 12,000 | | 0.25 | 3,000 |
|  | Operating Expense | 152,300 | | 0.25 | 38,075 |
|  | Dividends Paid | 25,000 | | Sch. A | 6,250 |
|  | Total | BRL 1,072,100 | |  | $237,170 |
|  |  |  | |  |  |
|  | Accumulated Other |  | |  |  |
|  | Comprehensive Income — |  | |  |  |
|  | Translation Adjustment (debit) |  | |  | 30,250 |
|  | Total Debits |  | |  | $ 267,420 |
|  |  |  | |  |  |
|  |  |  | |  |  |
|  | Accumulated Depreciation | BRL   100,000 | | 0.20 | $   20,000 |
|  | Accounts Payable | 24,000 | | 0.20 | 4,800 |
|  | Income Tax Payable | 27,000 | | 0.20 | 5,400 |
|  | Interest Payable | 1,100 | | 0.20 | 220 |
|  | Notes Payable | 20,000 | | 0.20 | 4,000 |
|  | Bonds Payable | 120,000 | | 0.20 | 24,000 |
|  | Common Stock | 80,000 | | 0.30 | 24,000 |
|  | Additional Paid-In Capital | 150,000 | | 0.30 | 45,000 |
|  | Retained Earnings | 50,000 | | 0.30 | 15,000 |
|  | Sales | 500,000 | | 0.25 | 125,000 |
|  | Total Credits | BRL 1,072,100 | |  | $267,420 |
|  |  |  | |  |  |
|  |  |  | |  |  |
|  | Schedule A |  | |  |  |
|  | Dividends April 7 | BRL    10,000 | | 0.28 | $   2,800 |
|  | Dividends October 9 | 15,000 | | 0.23 | 3,450 |
|  |  | BRL    25,000 | |  | $   6,250 |

**P12-21** (continued)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| b. | Schedule to compute the accumulated other comprehensive income – translation adjustment as of December 31, 20X4. | | | |
|  |  |  |  |  |
|  | |  | Exchange | U.S. |
|  | | Reals | Rate | Dollars |
|  | |  |  |  |
| Net assets at beginning of year | | BRL280,000 | 0.30 | $84,000 |
|  | |  |  |  |
| Adjustment for changes: | |  |  |  |
| Net income for year | | 70,000 | 0.25 | 17,500 |
| Dividends paid: April 7 | | (10,000) | 0.28 | (2,800) |
| October 9 | | (15,000) | 0.23 | (3,450) |
| Net assets translated at: | |  |  |  |
| Rates during year | |  |  | $95,250 |
| Rates at end of year | | BRL325,000 | 0.20 | 65,000 |
| Accumulated other comprehensive | |  |  |  |
| Income — translation adjustment (debit) | | |  | $30,250 |
|  | |  |  |  |
| Another way of interpreting the direction (debit or credit) of the translation adjustment is to consider the translated balance sheets, as follows: | | | | |

Translated balance sheet, 1/1/X4

|  |  |
| --- | --- |
| Net assets $84,000 | Stockholders’ equity $84,000 |
|  |  |

The translated balance sheet at the end of the year would be:

Translated balance sheet, 12/31/X4

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Net assets | $65,000 | Stockholders’ equity  (from 1/1/X4) | | $84,000 |
|  | | 20X4 Income | $17,500 |  |
|  | | Less dividends | (6,250) | 11,250 |
|  |  | Accumulated other  comprehensive income —  translation adjustment | | (30,250) |
| Total | $65,000 | Total | | $65,000 |

The debit balance of $30,250 in the accumulated other comprehensive income – translation adjustment, is necessary to “balance” the translated balance sheet.

**P12-22 Remeasurement and Proof of Remeasurement Gain or Loss**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| a. |  | | |  |  |
| DaSilva Company  Trial Balance Remeasurement  December 31, 20X4 | | | | | |
|  | | |  |  |  |
|  | | |  |  |  |
|  | | |  | Exchange | U.S. |
|  | | | Reals | Rate | Dollars |
|  | | |  |  |  |
| Cash | | BRL    57,700 | | 0.20 | $ 11,540 |
| Accounts Receivable (net) | | | 82,000 | 0.20 | 16,400 |
| Inventory | | | 95,000 | 0.25 | 23,750 |
| Prepaid Insurance | | | 2,400 | 0.30 | 720 |
| Plant and Equipment | | | 350,000 | Sch. A | 103,000 |
| Intangible Assets | | | 30,000 | 0.30 | 9,000 |
| Cost of Goods Sold | | | 230,000 | Sch. B | 62,250 |
| Insurance Expense | | | 3,200 | 0.30 | 960 |
| Depreciation Expense | | | 32,500 | Sch. C | 9,600 |
| Amortization Expense | | | 12,000 | 0.30 | 3,600 |
| Operating Expense | | | 152,300 | 0.25 | 38,075 |
| Dividends Paid | | 25,000 | | Sch. D | 6,250 |
| Total Debits | | BRL 1,072,100 | |  | $285,145 |
|  | | |  |  |  |
| Accumulated Depreciation | | BRL   100,000 | | Sch. E | $ 29,850 |
| Accounts Payable | | | 24,000 | 0.20 | 4,800 |
| Income Tax Payable | | | 27,000 | 0.20 | 5,400 |
| Interest Payable | | | 1,100 | 0.20 | 220 |
| Notes Payable | | | 20,000 | 0.20 | 4,000 |
| Bonds Payable | | | 120,000 | 0.20 | 24,000 |
| Common Stock | | | 80,000 | 0.30 | 24,000 |
| Additional Paid-In Capital | | | 150,000 | 0.30 | 45,000 |
| Retained Earnings | | | 50,000 | 0.30 | 15,000 |
| Sales | | 500,000 | | 0.25 | 125,000 |
| Total | | BRL 1,072,100 | |  | $277,270 |
|  | | |  |  |  |
| Remeasurement Gain | | |  |  | 7,875 |
| Total Credits | | |  |  | $285,145 |

**P12-22** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Reals |  | Exchange     Rate |  | U.S.  Dollars |
| Schedule A  Plant and Equipment  Before January 1, 20X4  April 7, 20X4 | BRL 250,000      100,000  BRL 350,000 |  | 0.30  0.28 |  | $  75,000     28,000  $103,000 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Schedule B  Cost of Goods Sold  Beginning Inventory\*  Purchases  Goods Available  Less Ending Inventory | BRL  95,000       230,000  BRL 325,000           (95,000)  BRL 230,000 |  | 0.30  0.25  0.25 |  | $  28,500     57,500  $  86,000   (23,750)  $  62,250 |
| \*Acquired before January 1, 20X4; use the exchange rate at date parent acquired subsidiary. | | | | | |
| Schedule C  Depreciation Expense  Before January 1, 20X4  April 7, 20X4 | BRL  25,000          7,500  BRL   32,500 |  | 0.30  0.28 |  | $    7,500      2,100  $    9,600 |
| Schedule D  Dividends  April 7, 20X4  Oct. 9, 20X4 | BRL   10,000         15,000  BRL   25,000 |  | 0.28  0.23 |  | $    2,800      3,450  $    6,250 |
| Schedule E  Accumulated Depreciation  Before January 1, 20X4:  January 1, 20X1  July 10, 20X2  April 7, 20X4 | BRL   80,000  12,500         7,500  BRL 100,000 |  | 0.30  0.30  0.28 |  | $  24,000  3,750      2,100  $  29,850 |

**P12-22** (continued)

b. Proof of Remeasurement Gain

Schedule 1: Statement of Net Monetary Position:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | End of  Year | | |  | | | Beginning  of Year | | |
| Monetary Assets:  Cash  Accounts Receivable (net)  Total | | BRL   57,700        82,000  BRL 139,700 | | |  | | | BRL    62,000         83,900  BRL  145,900 | | |
| Monetary Liabilities:  Accounts Payable  Income Taxes Payable  Interest Payable  Notes Payable  Bonds Payable  Total | | BRL   24,000  27,000  1,100  20,000       120,000  BRL (192,100) | | |  | | | BRL    20,000  30,000  1,000  20,000       120,000  BRL (191,000) | | |
| Net Monetary Liabilities | | BRL  (52,400) | | |  | | | BRL  (45,100) | | |
| Increase in net monetary liabilities during 20X4 | | | | |  | | | BRL   (7,300) | | |
|  | | | | | | |  |  | |
| Schedule 2: Analysis of Changes in Monetary Accounts: | | | | | | |  |  | |
|  | |  | | |  |  | | | |
|  | Reals | |  | Exchange     Rate | | | | | U.S.         Dollars | |
| Exposed net monetary liability |  | |  |  | | | | |  | |
| position-January 1, 20X4 | BRL (45,100) | |  | 0.30 | | | | | $(13,530) | |
| Increases  From operations:  Sales | 500,000 | |  | 0.25 | | | | | 125,000 | |
| Decreases  From operations:  Purchases  Operating expenses  From dividends | (230,000) (152,300)  (25,000) | |  | 0.25  0.25  10,000 x 0.28  15,000 x 0.23 | | | | | (57,500)  (38,075)  (6,250) | |
| From purchases of plant  and equipment | (100,000) | |  | 0.28 | | | | | (28,000) | |
| Net monetary position prior  to remeasurement at year- end  rates |  | |  |  | | | | | $(18,355) | |
| Exposed net monetary liability  Position-December 31, 20X4  Remeasurement gain | BRL (52,400) | |  | 0.20 | | | | | (10,480)  $   7,875 | |

**P12-23 Translation**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| a. | Western Ranching Company  Trial Balance Translation  December 31, 20X3 | | | |
|  | | Australian | Exchange | U.S. |
|  | | Dollars | Rate | Dollars |
|  | |  |  |  |
| Cash | | A$  44,100 | 0.60 | $   26,460 |
| Accounts Receivable (net) | | 72,000 | 0.60 | 43,200 |
| Inventory | | 86,000 | 0.60 | 51,600 |
| Plant and Equipment | | 240,000 | 0.60 | 144,000 |
| Cost of Goods Sold | | 330,000 | 0.65 | 214,500 |
| Depreciation Expense | | 24,000 | 0.65 | 15,600 |
| Operating Expense | | 131,500 | 0.65 | 85,475 |
| Interest Expense | | 5,700 | 0.65 | 3,705 |
| Dividends Declared | | 9,000 | 0.67 | 6,030 |
| Total | |  |  | $590,570 |
| Accumulated Other Comprehensive | |  |  |  |
| Income — Translation Adjustment(debit) | |  |  | 16,760 |
| Total Debits | | A$942,300 |  | $607,330 |
|  | |  |  |  |
| Accumulated Depreciation | | A$  60,000 | 0.60 | $  36,000 |
| Accounts Payable | | 53,800 | 0.60 | 32,280 |
| Payable to Alamo, Inc. | | 10,800 | 0.60 | 6,480 |
| Interest Payable | | 3,000 | 0.60 | 1,800 |
| 12% Bonds Payable | | 100,000 | 0.60 | 60,000 |
| Premium on Bonds | | 5,700 | 0.60 | 3,420 |
| Common Stock | | 90,000 | 0.70 | 63,000 |
| Retained Earnings | | 40,000 | 0.70 | 28,000 |
| Sales | | 579,000 | 0.65 | 376,350 |
| Total Credits | | A$942,300 |  | $607,330 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| b. | Schedule to prove translation adjustment: | |  |  |
|  | |  |  |  |
|  | | Australian | Exchange | U.S. |
|  | | Dollars | Rate | Dollars |
|  | |  |  |  |
| Net assets at beginning of year | | A$130,000 | 0.70 | $  91,000 |
|  | |  |  |  |
| Adjustments for changes: | |  |  |  |
| Net income for year | | 87,800 | 0.65 | 57,070 |
| Dividends paid | | (9,000) | 0.67 | (6,030) |
| Net assets translated: | |  |  |  |
| Rates during year | |  |  | $142,040 |
| Rates at end of year | | A$208,800 | 0.60 | (125,280) |
|  | |  |  |  |
| Change in other comprehensive | |  |  |  |
| Income — translation adjustment (debit) | |  |  | $ 16,760 |
| Accumulated other comprehensive | |  |  |  |
| Income — translation adjustment**,** 1/1 | |  |  | -0- |
| Accumulated other comprehensive | |  |  |  |
| Income — translation adjustment, 12/31 | |  |  | $  16,760 |
|  | |  |  |  |

**P12-24 Parent Company Journal Entries and Translation**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Australian Dollar | Rate | US Dollar |
| Total Purchase Price | A$ 200,000 | 0.70 | $ 140,000 |
|  |  |  |  |
| Total Fair Value | A$ 250,000 | 0.70 | $ 175,000 |
| Less: |  |  |  |
| Common Stock | A$ 90,000 | 0.70 | $ 63,000 |
| Retained Earnings | A$ 40,000 | 0.70 | $ 28,000 |
| Building & Equipment Differential | A$ 40,000 | 0.70 | $ 28,000 |
| Patent Value | A$ 80,000 |  | $ 56,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  | Australian | Exchange | U.S. | |
|  | Dollars | Rate | Dollars | |
| Balance Jan. 1, 20X3 |  |  |  |  |
| Differential: |  |  |  |  |
| Buildings and Equipment | A$40,000 | 0.70 | $28,000 |  |
| Patent | 80,000 | 0.70 |  | $56,000 |
|  |  |  |  |  |
| Amortization: |  |  |  |  |
| Buildings and Equipment |  |  |  |  |
| (10 years) | (4,000) | 0.65 | (2,600) |  |
| Patent (10 years) | (8,000) | 0.65 |  | (5,200) |
| Remaining Balance | A$108,000 |  | $25,400 | $50,800 |
|  |  |  |  |  |
| Adjusted balance Dec. 31, 20X3 | |  |  |  |
| Buildings and Equipment | A$36,000 | 0.60 | (21,600) |  |
| Patent | A$72,000 | 0.60 |  | (43,200) |
|  |  |  |  |  |
| Differential Translation |  |  |  |  |
| Adjustment: |  |  |  |  |
| Patent |  |  |  | $  7,600 |
| Buildings and Equipment |  |  |  | 3,800 |
|  |  |  |  |  |
| Total Differential |  |  |  |  |
| Translation Adjustment |  |  |  | $  11,400 |
|  |  |  |  |  |
| **Note:** The differential translation adjustment is necessary to decrease the buildings and equipment component of the parent company’s differential from $20,320 to $17,280, and to decrease the patent component from $40,640 to $34,560. Thus, a credit will be made to the parent company’s investment account for the total of $9,120 ($3,040 + $6,080) with a corresponding debit to the parent company’s Other Comprehensive Income – Translation Adjustment account. | | | | |

**P12-24** (continued)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Parent company journal entries 20X3: | | | | | | |  | | |  | | |
|  |  |  | | | | |  | | |  | | |
|  | (1) | Investment in Western Ranching | | | | | 140,000 | | |  | | |
|  |  | Cash | | | | |  | | | 140,000 | | |
|  |  | Acquire foreign investment. | | | | |  | | |  | | |
|  |  |  | | | | |  | | |  | | |
|  | (2) | Cash | | | | | 4,824 | | |  | | |
|  |  | Investment in Western Ranching | | | | |  | | | 4,824 | | |
|  |  | Receive dividend: | | | | |  | | |  | | |
|  |  | A$9,000 x 0.80 x $.67 | | | | |  | | |  | | |
|  |  |  | | | | |  | | |  | | |
|  | (3) | Investment in Western Ranching | | | | | 45,656 | | |  | | |
|  |  | Income from Western Ranching | | | | |  | | | 45,656 | | |
|  |  | Equity accrual for percentage of subsidiary's income: | | | | | | | | | | |
|  |  |  | | | A$ | | | U.S.$ | | |  | |
|  |  | | Sales | | A$579,000 | | | $376,350 | | |  | |
|  |  | | Cost of goods sold | | (330,000) | | | (214,500) | | |  | |
|  |  | | Depreciation expense | | (24,000) | | | (15,600) | | |  | |
|  |  | | Operating expense | | (131,500) | | | (85,475) | | |  | |
|  |  | | Interest expense | | (5,700) | | | (3,705) | | |  | |
|  |  | | Income | | A$  87,800 | | | $  57,070 | | |  | |
|  |  | | Average exchange rate | | x      0.65 | | |  | | |  | |
|  |  | | U.S. dollar equivalent | | $    57,070 | | | $  57,070 | | |  | |
|  |  | | Parent's percent | | x      0.80 | | | x    0.80 | | |  | |
|  |  | | Equity accrual | | $    45,656 | | | $  45,656 | | |  | |
|  |  | |  | |  | | |  | | |  | |
|  |  |  | | |  | | |  | | |  | |
|  | (4) | Income from Western Ranching | | | | | 6,240 | | |  | | |
|  |  | Investment in Western Ranching | | | | |  | | | 6,240 | | |
|  |  | Amortization of differential: | | | | |  | | |  | | |
|  |  | Buildings and equipment | | = $2,600 | |  | | |  | | |
|  |  | Patent | | =   5,200 | |  | | |  | | |
|  |  |  | | $7,800 | | x 0.80 = 6,240 | | |  | | |
|  |  |  | | | | |  | | |  | | |
|  | (5) | Other Comprehensive Income — | | | | |  | | |  | | |
|  |  | Translation Adjustment | | | | | 9,120 | | |  | | |
|  |  | Investment in Western Ranching | | | | |  | | | 9,120 | | |
|  |  | Translation adjustment related to decrease in differential: | | | | | | | | | | |
|  |  | Buildings and equipment | | = $3,800 | |  | | |  | | |
|  |  | Patent | | =   7,600 | |  | | |  | | |
|  |  |  | | $11,400 | | x 0.80 = 9,120 | | |  | | |
|  |  |  | | | | |  | | |  | | |
|  | (6) | Other Comprehensive Income — | | | | |  | | |  | | |
|  |  | Translation Adjustment | | | | | 13,408 | | |  | | |
|  |  | Investment in Western Ranching | | | | |  | | | 13,408 | | |
|  |  | Parent company's share of translation adjustment from subsidiary: | | | | | | | | | | |
|  |  | $13,408 = $16,760 x 0.80 | | | | |  | | |  | | |

**P12-24** (continued)

Entries posted to T-accounts (not required):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Investment in** | |  | **Income from** | |  |
|  | **Western Ranching** | |  | **Western Ranching** | |  |
| **Acquisition Price** | **140,000** |  |  |  |  |  |
| **80% Net Income** | **45,656** |  |  |  | **45,656** | **80% Net Income** |
|  |  | **4,824** | **80% Dividends** |  |  |  |
|  |  | **6,240** | **80% Amort. of Diff.** | **6,240** |  |  |
|  |  | **9,120** | **Diff. Translation** |  |  |  |
|  |  | **13,408** | **80% of WR Trans. Adj.** |  |  |  |
| **Ending Balance** | **152,064** |  |  |  | **39,416** | **Ending Balance** |

**P12-25 Consolidation Worksheet after Translation**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |  |  |
|  | **NCI 20%** | **+** | **Alamo 80%** | **=** | **Common Stock** | **+** | **Retained  Earnings** |  |
| **Beginning book value** | **18,200** |  | **72,800** |  | **63,000** |  | **28,000** |  |
| **+ Net Income** | **11,414** |  | **45,656** |  |  |  | **57,070** |  |
| **- Dividends** | **(1,206)** |  | **(4,824)** |  |  |  | **(6,030)** |  |
| **Ending book value** | **28,408** |  | **113,632** |  | **63,000** |  | **79,040** |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic elimination entry** | |  |  |  |  |
| **Common stock** |  |  | **63,000** | |  |
| **Retained earnings** |  |  | **28,000** | |  |
| **Income from Western Ranching** | |  | **45,656** | |  |
| **NCI in NI of Western Ranching** | |  | **11,414** | |  |
| **Dividends declared** | |  |  |  | **6,030** |
| **Investment in Western Ranching** | | |  |  | **113,632** |
| **NCI in NA of Western Ranching** | | |  |  | **28,408** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Book Value Other Comprehensive Income Entry:** | | |  |  |
| **Investment in Western Ranching** |  | **13,408** |  |  |
| **NCI in NA of Western Ranching** |  | **3,352** |  |  |
| **OCI from Western Ranching** |  |  |  | **13,408** |
| **OCI to NCI in Western Ranching** | |  |  | **3,352** |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |  |  |  |  |  | |
|  | **NCI 20%** | + | **Alamo 80%** | **=** | **Plant and Equipment** | **+** | **Patent** | **+** | **Acc. Depr.** |  |
| **Beginning balance** | **16,800** |  | **67,200** |  | **28,000** |  | **56,000** |  | **0** |  |
| **-Amortization of differential** | **(1,560)** |  | **(6,240)** |  |  |  | **(5,200)** |  | **(2,600)** |  |
| **-Differential translation adj.** | **(2,280)** |  | **(9,120)** |  |  |  | **(7,600)** |  | **(3,800)** |  |
| **Ending balance** | **12,960** |  | **51,840** |  | **28,000** |  | **43,200** |  | **(6,400)** |  |
|  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Amortized excess value reclassification entry:** | |  | |  |
| **Amortization Expense** | **5,200** | |  | |
| **Depreciation expense** | **2,600** | |  | |
| **Income from Western Ranching** |  | | **6,240** | |
| **NCI in NI of Western Ranching** |  | | **1,560** | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | |  | | |  | |
| **Plant and Equipment** | | **28,000** |  | | |
| **Patent** | | **43,200** |  | | |
| **Accumulated Depreciation** | |  | **6,400** | | |
| **Investment in Western Ranching** |  | | | **51,840** | |
| **NCI in NA of Western Ranching** |  | | | **12,960** | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Eliminate intercompany accounts:** | | |  |  |  | |
| **Payable to Alamo** |  |  | **6,480** | |  |
| **Receivable from Western Ranching** | | |  | | **6,480** |

**P12-25** (continued)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Alamo** |  | **Western Ranching** |  | **Elimination Entries** | | |  |  |  |
|  |  |  |  |  | **DR** |  | **CR** |  | **Consolidated** |  |
|  | **Income Statement** |  |  |  |  |  |  |  |  |  |  |  |
|  | Sales |  | 1,000,000 |  | 376,350 |  |  |  |  |  | 1,376,350 |  |
|  | Less: COGS |  | (600,000) |  | (214,500) |  |  |  |  |  | (814,500) |  |
|  | Less: Depreciation Expense |  | (28,000) |  | (15,600) |  | **2,600** |  |  |  | (46,200) |  |
|  | Less Amortization Expense |  |  |  |  |  | **5,200** |  |  |  | (5,200) |  |
|  | Less: Operating Expense |  | (204,000) |  | (85,475) |  |  |  |  |  | (289,475) |  |
|  | Less: Interest Expense |  | (2,000) |  | (3,705) |  |  |  |  |  | (5,705) |  |
|  | Income from Western Ranching |  | 39,416 |  |  |  | **45,656** |  | **6,240** |  | 0 |  |
|  | Consolidated Net Income |  | 205,416 |  | 57,070 |  | **53,456** |  | **6,240** |  | 215,270 |  |
|  | NCI in Net Income |  |  |  |  |  | **11,414** |  | **1,560** |  | (9,854) |  |
|  | **Controlling Interest in Net Income** |  | **205,416** |  | **57,070** |  | **64,870** |  | **7,800** |  | **205,416** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Statement of Retained Earnings** |  |  |  |  |  |  |  |  |  |  |  |
|  | Beginning Balance |  | 179,656 |  | 28,000 |  | **28,000** |  |  |  | 179,656 |  |
|  | Net Income |  | **205,416** |  | **57,070** |  | **64,870** |  | **7,800** |  | 205,416 |  |
|  | Less: Dividends Declared |  | (50,000) |  | (6,030) |  |  |  | **6,030** |  | (50,000) |  |
|  | **Ending Balance** |  | **335,072** |  | **79,040** |  | **92,870** |  | **13,830** |  | **335,072** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Balance Sheet** |  |  |  |  |  |  |  |  |  |  |  |
|  | Cash |  | 38,000 |  | 26,460 |  |  |  |  |  | 64,460 |  |
|  | Accounts Receivable |  | 140,000 |  | 43,200 |  |  |  |  |  | 183,200 |  |
|  | Receivable from Western Ranching |  | 6,480 |  |  |  |  |  | **6,480** |  | 0 |  |
|  | Inventory |  | 128,000 |  | 51,600 |  |  |  |  |  | 179,600 |  |
|  | Plant & Equipment |  | 500,000 |  | 144,000 |  | **28,000** |  |  |  | 672,000 |  |
|  | Less: Accumulated Depreciation |  | (90,000) |  | (36,000) |  |  |  | **6,400** |  | (132,400) |  |
|  | Patent |  |  |  |  |  | **43,200** |  |  |  | 43,200 |  |
|  | Investment in Western Ranching |  | 152,064 |  |  |  | **13,408** |  | **113,632** |  | 0 |  |
|  |  |  |  |  |  |  |  |  | **51,840** |  |  |  |
|  | **Total Assets** |  | **874,544** |  | **229,260** |  | **84,608** |  | **178,352** |  | **1,010,060** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Accounts Payable |  | 60,000 |  | 32,280 |  |  |  |  |  | 92,280 |  |
|  | Payable to Alamo |  |  |  | 6,480 |  | **6,480** |  |  |  | 0 |  |
|  | Interest Payable |  | 2,000 |  | 1,800 |  |  |  |  |  | 3,800 |  |
|  | Bonds Payable |  |  |  | 60,000 |  |  |  |  |  | 60,000 |  |
|  | Premium on Bonds Payable |  |  |  | 3,420 |  |  |  |  |  | 3,420 |  |
|  | Common Stock |  | 500,000 |  | 63,000 |  | **63,000** |  |  |  | 500,000 |  |
|  | Retained Earnings |  | **335,072** |  | **79,040** |  | **92,870** |  | **13,830** |  | 335,072 |  |
|  | Accumulated OCI |  | (22,528) |  | (16,760) |  | **0** |  | **16,760** |  | (22,528) |  |
|  | NCI in NA of Western Ranching |  |  |  |  |  | **3,352** |  | **28,408** |  | 38,016 |  |
|  |  |  |  |  |  |  |  |  | **12,960** |  |  |  |
|  | **Total Liabilities & Equity** |  | **874,544** |  | **229,260** |  | **165,702** |  | **71,958** |  | **1,010,060** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Other Comprehensive Income** |  |  |  |  |  |  |  |  |  |  |  |
|  | Accumulated Other Comprehensive Income, 1/1/20X3 | | | |  |  |  |  |  |  | 0 |  |
|  | Other Comp. Income--Translation Adjustment | | (22,528) |  | (16,760) |  |  |  | **13,408** |  | (25,880) |  |
|  | Other Comprehensive Income to NCI |  |  |  |  |  |  |  | **3,352** |  | 3,352 |  |
|  | **Accumulated Other Comprehensive Income, 12/31/20X3** | | **(22,528)** |  | **(16,760)** |  | **0** |  | **16,760** |  | **(22,528)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**P12-26 Remeasurement**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| a. | Western Ranching Company  Trial Balance Remeasurement  December 31, 20X3 | | | | |
|  | | | Australian | Exchange | U.S. |
|  | | | Dollars | Rate | Dollars |
|  | | |  |  |  |
| Cash | | | A$  44,100 | 0.60 | $  26,460 |
| Accounts Receivable (net) | | | 72,000 | 0.60 | 43,200 |
| Inventory | | | 86,000 | 0.65 | 55,900 |
| Plant and Equipment | | | 240,000 | 180,000 x 0.70 |  |
|  | | |  | 60,000 x 0.70 | 168,000 |
| Cost of Goods Sold | | | 330,000 | (a) | 217,800 |
| Depreciation Expense | | | 24,000 | 0.70 | 16,800 |
| Operating Expense | | | 131,500 | 0.65 | 85,475 |
| Interest Expense | | | 5,700 | 0.65 | 3,705 |
| Dividends Declared | | | 9,000 | 0.67 | 6,030 |
| Total Debits | | | A$942,300 |  | $623,370 |
|  | | |  |  |  |
|  | | |  |  |  |
| Accumulated Depreciation | | | A$ 60,000 | 0.70 | $  42,000 |
| Accounts Payable | | | 53,800 | 0.60 | 32,280 |
| Payable to Alamo, Inc. | | | 10,800 | 0.60 | 6,480 |
| Interest Payable | | | 3,000 | 0.60 | 1,800 |
| 12% Bonds Payable | | | 100,000 | 0.60 | 60,000 |
| Premium on Bonds | | | 5,700 | 0.60 | 3,420 |
| Common Stock | | | 90,000 | 0.70 | 63,000 |
| Retained Earnings | | | 40,000 | 0.70 | 28,000 |
| Sales | | | 579,000 | 0.65 | 376,350 |
| Total | | |  |  | $613,330 |
| Remeasurement Gain | | |  |  | 10,040 |
| Total Credits | | | A$942,300 |  | $623,370 |
|  | | |  |  |  |
|  | | |  |  |  |
|  | | |  |  |  |
|  | | | Australian | Exchange | U.S. |
| (a) Cost of Goods Sold: | | | Dollars | Rate | Dollars |
|  | | Beginning Inventory | A$  66,000 | 0.70 | $  46,200 |
|  | | Purchases | 350,000 | 0.65 | 227,500 |
|  | | Goods Available | A$416,000 |  | $273,700 |
|  | | Minus Ending Inventory | (86,000) | 0.65 | (55,900) |
|  | | Cost of Goods Sold | A$330,000 |  | $217,800 |

**P12-26\*** (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| b. Proof of Remeasurement Gain: |  | |  | |  |
|  | |  | |  | |
| Schedule 1: Statement of Net Monetary Position | | | |  | |
|  | |  | |  | |
|  | | End of | | Beginning | |
|  | | Year | | of Year | |
| Monetary Assets: | |  | |  | |
| Cash | | A$  44,100 | |  | |
| Accounts Receivable (net) | | 72,000 | |  | |
| Total | | A$116,100 | |  | |
|  | |  | |  | |
| Monetary Equities: | |  | |  | |
| Accounts Payable | | A$  53,800 | |  | |
| Payable to Parent Company | | 10,800 | |  | |
| Interest Payable | | 3,000 | |  | |
| 12% Bonds Payable | | 100,000 | |  | |
| Premium on Bonds | | 5,700 | |  | |
| Total | | A$173,300 | |  | |
|  | |  | |  | |
| Net Monetary Equities | | A$(57,200) | | A$(80,000) | |
| Decrease in net monetary equities | |  | |  | |
| during year | | A$(22,800) | |  | |
|  | |  | |  | |
|  | |  | |  | |
| Schedule 2: Analysis of Changes in Monetary Accounts | | | | | |
|  |  | |  | |  |
|  | Australian | | Exchange | | U.S. |
|  | Dollars | | Rate | | Dollars |
| Exposed Net Monetary Liability |  | |  | |  |
| Position — January 1 | A$ (80,000) | | 0.70 | | $ (56,000) |
|  |  | |  | |  |
| Increases: |  | |  | |  |
| From Operations: |  | |  | |  |
| Sales | 579,000 | | 0.65 | | 376,350 |
|  |  | |  | |  |
| Decreases: |  | |  | |  |
| From Operations: |  | |  | |  |
| Purchases | (350,000) | | 0.65 | | (227,500) |
| Cash Expense | (131,500) | | 0.65 | | (85,475) |
| Interest Expense | (5,700) | | 0.65 | | (3,705) |
| From Dividends | (9,000) | | 0.67 | | (6,030) |
| From Purchase of Plant and |  | |  | |  |
| Equipment | (60,000) | | 0.70 | | (42,000) |
|  |  | |  | |  |
| Net Monetary Position Prior to |  | |  | |  |
| Remeasurement at Year-End Rate |  | |  | | $ (44,360) |
|  |  | |  | |  |
| Exposed Net Monetary Liability |  | |  | |  |
| Position — December 31 | A$ (57,200) | | 0.60 | | (34,320) |
|  |  | |  | |  |
| Remeasurement Gain |  | |  | | $ 10,040 |

**P12-27 Parent Company Journal Entries and Remeasurement**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Australian Dollar | Rate | US Dollar |
| Total Purchase Price | A$ 200,000 | 0.70 | $ 140,000 |
|  |  |  |  |
| Total Fair Value | A$ 250,000 | 0.70 | $ 175,000 |
| Less: |  |  |  |
| Common Stock | A$ 90,000 | 0.70 | $ 63,000 |
| Retained Earnings | A$ 40,000 | 0.70 | $ 28,000 |
| Building & Equipment Differential | A$ 40,000 | 0.70 | $ 28,000 |
| Patent Value | A$ 80,000 |  | $ 56,000 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Parent company journal entries – 20X3: | | | | |  | |  |
|  |  |  | | |  | |  |
|  | (1) | Investment in Western Ranching | | | 140,000 | |  |
|  |  | Cash | | |  | | 140,000 |
|  |  | Acquire foreign investment. | | |  | |  |
|  |  |  | | |  | |  |
|  | (2) | Cash | | | 4,824 | |  |
|  |  | Investment in Western Ranching | | |  | | 4,824 |
|  |  | Receive dividend: | | |  | |  |
|  |  | $4,824 = A$9,000 x 0.80 x $.67 | | |  | |  |
|  |  |  | | |  | |  |
|  | (3) | Investment in Western Ranching | | | 50,088 | |  |
|  |  | Income from Western Ranching | | |  | | 50,088 |
|  |  | Equity accrual for percentage of subsidiary's income: | | | | | |
|  |  |  | U.S.$ | | |  | |
|  |  | Sales | $ 376,350 | | |  | |
|  |  | Cost of goods sold | (217,800) | | |  | |
|  |  | Depreciation expense | (16,800) | | |  | |
|  |  | Operating expense | (85,475) | | |  | |
|  |  | Interest expense | (3,705) | | |  | |
|  |  | Remeasurement gain | 10,040 | | |  | |
|  |  | Subsidiary's income | $   62,610 | | |  | |
|  |  | Parent's percent | x    0.80 | | |  | |
|  |  | Equity accrual | $   50,088 | | |  | |
|  |  |  |  | | |  | |
|  | (4) | Income from Western Ranching | | | 6,720 | |  |
|  |  | Investment in Western Ranching | | |  | | 6,720 |
|  |  | Amortization of differential: | | |  | |  |
|  |  | Buildings and Equipment | = $2,800 ($28,000 / 10) | | | | |
|  |  | Patent | =  5,600 ($56,000 / 10) | | | | |
|  |  |  | $8,400 | x 0.80 = 6,720 | | | |

**P12-27** (continued)

**NOT REQUIRED:** Entries posted to T-accounts

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Investment in** | |  | **Income from** | |  |
|  | **Western Ranching** | |  | **Western Ranching** | |  |
| **Acquisition Price** | **140,000** |  |  |  |  |  |
| **80% Net Income** | **50,088** |  |  |  | **50,088** | **80% Net Income** |
|  |  | **4,824** | **80% Dividends** |  |  |  |
|  |  | **6,720** | **Amort. of Diff.** | **6,720** |  |  |
| **Ending Balance** | **178,544** |  |  |  | **43,368** | **Ending Balance** |

**P12-28 Consolidation Worksheet after Remeasurement**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Book Value Calculations:** | |  |  |  |  |  |  |  |
|  | **NCI 20%** | **+** | **Alamo 80%** | **=** | **Common Stock** | **+** | **Retained  Earnings** |  |
| **Beginning book value** | **18,200** |  | **72,800** |  | **63,000** |  | **28,000** |  |
| **+ Net Income** | **12,522** |  | **50,088** |  |  |  | **62,610** |  |
| **- Dividends** | **(1,206)** |  | **(4,824)** |  |  |  | **(6,030)** |  |
| **Ending book value** | **29,516** |  | **118,064** |  | **63,000** |  | **84,580** |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Basic elimination entry** | |  |  |  |  |
| **Common stock** |  |  | **63,000** | |  |
| **Retained earnings** |  |  | **28,000** | |  |
| **Income from Western Ranching** | |  | **50,088** | |  |
| **NCI in NI of Western Ranching** | |  | **12,522** | |  |
| **Dividends declared** | |  |  |  | **6,030** |
| **Investment in Western Ranching** | | |  |  | **118,064** |
| **NCI in NA of Western Ranching** | | |  |  | **29,516** |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Excess Value (Differential) Calculations:** | | | |  |  |  |  |  |  |  |
|  | **NCI 20%** | + | **Alamo 80%** | **=** | **Plant and Equipment** | **+** | **Patent** | **+** | **Acc. Depr.** |  |
| **Beginning balance** | **16,800** |  | **67,200** |  | **28,000** |  | **56,000** |  | **0** |  |
| **Changes** | **(1,680)** |  | **(6,720)** |  |  |  | **(5,600)** |  | **(2,800)** |  |
| **Ending balance** | **15,120** |  | **60,480** |  | **28,000** |  | **50,400** |  | **(2,800)** |  |
|  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Amortized excess value reclassification entry:** | | |  | | |  |
| **Amortization Expense** | | **5,600** | |  | | |
| **Depreciation expense** | | **2,800** | |  | | |
| **Income from Western Ranching** |  | | | | **6,720** | |
| **NCI in NI of Western Ranching** |  | | | | **1,680** | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Excess value (differential) reclassification entry:** | |  | |  | |
| **Plant and Equipment** | **28,000** | |  | |
| **Patent** | **50,400** | |  | |
| **Accumulated Depreciation** |  | | **2,800** | |
| **Investment in Western Ranching** |  | | **60,480** | |
| **NCI in NA of Western Ranching** |  | | **15,120** | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Eliminate intercompany accounts:** | | |  |  |  | |
| **Payable to Alamo** |  |  | **6,480** | |  |
| **Receivable from Western Ranching** | | |  | | **6,480** |

**P12-28** (continued)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Alamo** |  | **Western Ranching** |  | **Elimination Entries** | | |  |  |  |
|  |  |  |  |  | **DR** |  | **CR** |  | **Consolidated** |  |
|  | **Income Statement** |  |  |  |  |  |  |  |  |  |  |  |
|  | Sales |  | 1,000,000 |  | 376,350 |  |  |  |  |  | 1,376,350 |  |
|  | Remeasurement Gain |  |  |  | 10,040 |  |  |  |  |  | 10,040 |  |
|  | Less: COGS |  | (600,000) |  | (217,800) |  |  |  |  |  | (817,800) |  |
|  | Less: Depreciation Expense |  | (28,000) |  | (16,800) |  | **2,800** |  |  |  | (47,600) |  |
|  | Less Amortization Expense |  |  |  |  |  | **5,600** |  |  |  | (5,600) |  |
|  | Less: Operating Expense |  | (204,000) |  | (85,475) |  |  |  |  |  | (289,475) |  |
|  | Less: Interest Expense |  | (2,000) |  | (3,705) |  |  |  |  |  | (5,705) |  |
|  | Income from Western Ranching |  | 43,368 |  |  |  | **50,088** |  | **6,720** |  | 0 |  |
|  | Consolidated Net Income |  | 209,368 |  | 62,610 |  | **58,488** |  | **6,720** |  | 220,210 |  |
|  | NCI in Net Income |  |  |  |  |  | **12,522** |  | **1,680** |  | (10,842) |  |
|  | **Controlling Interest in Net Income** |  | **209,368** |  | **62,610** |  | **71,010** |  | **8,400** |  | **209,368** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Statement of Retained Earnings** |  |  |  |  |  |  |  |  |  |  |  |
|  | Beginning Balance |  | 179,656 |  | 28,000 |  | **28,000** |  |  |  | 179,656 |  |
|  | Net Income |  | **209,368** |  | **62,610** |  | **71,010** |  | **8,400** |  | 209,368 |  |
|  | Less: Dividends Declared |  | (50,000) |  | (6,030) |  |  |  | **6,030** |  | (50,000) |  |
|  | **Ending Balance** |  | **339,024** |  | **84,580** |  | **99,010** |  | **14,430** |  | **339,024** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Balance Sheet** |  |  |  |  |  |  |  |  |  |  |  |
|  | Cash |  | 38,000 |  | 26,460 |  |  |  |  |  | 64,460 |  |
|  | Accounts Receivable |  | 140,000 |  | 43,200 |  |  |  |  |  | 183,200 |  |
|  | Receivable from Western Ranching |  | 6,480 |  |  |  |  |  | **6,480** |  | 0 |  |
|  | Inventory |  | 128,000 |  | 55,900 |  |  |  |  |  | 183,900 |  |
|  | Plant & Equipment |  | 500,000 |  | 168,000 |  | **28,000** |  | **0** |  | 696,000 |  |
|  | Less: Accumulated Depreciation |  | (90,000) |  | (42,000) |  | **0** |  | **2,800** |  | (134,800) |  |
|  | Patent |  |  |  |  |  | **50,400** |  |  |  | 50,400 |  |
|  | Investment in Western Ranching |  | 178,544 |  |  |  |  |  | **118,064** |  | 0 |  |
|  |  |  |  |  |  |  |  |  | **60,480** |  |  |  |
|  | **Total Assets** |  | **901,024** |  | **251,560** |  | **78,400** |  | **187,824** |  | **1,043,160** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Accounts Payable |  | 60,000 |  | 32,280 |  |  |  |  |  | 92,280 |  |
|  | Payable to Alamo |  |  |  | 6,480 |  | **6,480** |  |  |  | 0 |  |
|  | Interest Payable |  | 2,000 |  | 1,800 |  |  |  |  |  | 3,800 |  |
|  | Bonds Payable |  |  |  | 60,000 |  |  |  |  |  | 60,000 |  |
|  | Premium on Bonds |  |  |  | 3,420 |  |  |  |  |  | 3,420 |  |
|  | Common Stock |  | 500,000 |  | 63,000 |  | **63,000** |  |  |  | 500,000 |  |
|  | Retained Earnings |  | **339,024** |  | **84,580** |  | **99,010** |  | **14,430** |  | 339,024 |  |
|  | NCI in NA of Western Ranching |  |  |  |  |  |  |  | **29,516** |  | 44,636 |  |
|  |  |  |  |  |  |  |  |  | **15,120** |  |  |  |
|  | **Total Liabilities & Equity** |  | **901,024** |  | **251,560** |  | **168,490** |  | **59,066** |  | **1,043,160** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**P12-29 Foreign Currency Remeasurement [AICPA Adapted]**

|  |  |  |  |
| --- | --- | --- | --- |
| Kiner Company's Foreign Subsidiary  Remeasurement of Selected Captions into United States Dollars  December 31, 20X2, and December 31, 20X1 | | | |
|  |  |  |  |
|  |  | Indirect | Remeasured |
|  | Balance | Exchange | into U.S. |
|  | in LCUs | Rate | Dollars |
|  |  |  |  |
| December 31, 20X1 |  |  |  |
| Accounts Receivable (net) | 35,000 LCU | 1.7 LCU = $1 | $20,588 |
| Inventories, at cost | 75,000 | 2.0 LCU = $1 | 37,500 |
| Property, Plant, and |  |  |  |
| Equipment (net) | 150,000 | 2.0 LCU = $1 | 75,000 |
| Long-Term Debt | 120,000 | 1.7 LCU = $1 | 70,588 |
| Common Stock | 50,000 | 2.0 LCU = $1 | 25,000 |
|  |  |  |  |
| December 31, 20X2 |  |  |  |
| Accounts Receivable (net) | 40,000 | 1.5 LCU = $1 | 26,667 |
| Inventories, at cost | 80,000 | 1.7 LCU = $1 | 47,059 |
| Property, Plant, and |  |  |  |
| Equipment (net) | 163,000 | Schedule 1 | 86,000 |
| Long-Term Debt | 100,000 | 1.5 LCU = $1 | 66,667 |
| Common Stock | 50,000 | 2.0 LCU = $1 | 25,000 |
|  | |  |  |  |
|  | |  |  |  |
| Schedule 1: Computation of Remeasurement of Property, Plant and Equipment | | | | |
| (Net) into United States Dollars on December 31, 20X2 | | | | |
|  | |  |  |  |
|  | |  | Indirect | Remeasured |
|  | | Balance | Exchange | into U.S. |
|  | | in LCUs | Rate | Dollars |
|  | |  |  |  |
| Land purchased on | |  |  |  |
| January 1, 20X1 | | 24,000 LCU | 2.0 LCU = $1 | $12,000 |
| Plant and equipment | |  |  |  |
| purchased on January 1, 20X1: | |  |  |  |
| Original cost | | 140,000 LCU | 2.0 LCU = $1 | $70,000 |
| Depreciation for 20X1 | | (14,000) | 2.0 LCU = $1 | (7,000) |
| Depreciation for 20X2 | | (14,000) | 2.0 LCU = $1 | (7,000) |
|  | | 112,000 LCU | 2.0 LCU = $1 | $56,000 |
| Plant and equipment | |  |  |  |
| purchased on July 4, 20X2: | |  |  |  |
| Original cost | | 30,000 LCU | 1.5 LCU = $1 | $20,000 |
| Depreciation for 20X2 | | (3,000) | 1.5 LCU = $1 | (2,000) |
|  | | 27,000 LCU | 1.5 LCU = $1 | $18,000 |
|  | | 163,000 LCU |  | $86,000 |

**P12-30 Foreign Currency Translation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Kiner Company's Foreign Subsidiary  Translation of Selected Captions into United States Dollars  December 31, 20X2, and December 31, 20X1 | | | | | |
|  | |  | |  |  |
|  | |  | | Indirect | Translated |
|  | | Balance | | Exchange | into U.S. |
|  | in LCUs | | | Rate | Dollars |
| December 31, 20X1 | |  | |  |  |
| Accounts Receivable (net) | 35,000 | | LCU | 1.7 LCU = $1 | $ 20,588 |
| Inventories, at cost | 75,000 | |  | 1.7 LCU = $1 | 44,118 |
| Property, Plant, and |  | |  |  |  |
| Equipment (net) | 150,000 | |  | 1.7 LCU = $1 | 88,235 |
| Long-Term Debt | 120,000 | |  | 1.7 LCU = $1 | 70,588 |
| Common Stock | 50,000 | |  | 2.0 LCU = $1 | 25,000 |
|  |  | |  |  |  |
| December 31, 20X2 |  | |  |  |  |
| Accounts Receivable (net) | 40,000 | |  | 1.5 LCU = $1 | 26,667 |
| Inventories, at cost | 80,000 | |  | 1.5 LCU = $1 | 53,333 |
| Property, Plant, and |  | |  |  |  |
| Equipment (net) | 163,000 | |  | 1.5 LCU = $1 | 108,667 |
| Long-Term Debt | 100,000 | |  | 1.5 LCU = $1 | 66,667 |
| Common Stock | 50,000 | |  | 2.0 LCU = $1 | 25,000 |

**P12-31 Matching Key Terms**

1. E

2. I

3. K

4. H

5. A

6. F

7. J

8. B

9. L

10. C

**P12-32 Translation Choices**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Requirement 1: | | | | | | | |
|  | a. |  | (7) | LCU 0.83 December 31, 20X4: end of current year | | | |
|  | b. |  | (5) | LCU 0.85 Average for year 20X4 for revenues | | | |
|  | c. |  | (6) | LCU 0.84 November 1, 20X4: declaration date | | | |
|  | d. |  | (7) | LCU 0.83 December 31, 20X4: end of current year | | | |
|  | e. |  | (7) | LCU 0.83 December 31, 20X4: end of current year | | | |
|  | f. |  | (5) | LCU 0.85 Average for year 20X4 for expenses | | | |
|  | g. |  | (1) | LCU 0.74 June 16, 20X1: date foreign company purchased | | | |
|  | h. |  | (7) | LCU 0.83 December 31, 20X4: end of current year | | | |
|  | i. |  | (8) | Balance computed at end of December 31, 20X4, includes | | | |
|  |  |  |  | carry forward from prior periods | | | |
|  | j. |  | (7) | LCU 0.83 December 31, 20X4: end of current year | | | |
|  | k. |  | (5) | LCU 0.85 Average for year 20X4 for expenses | | | |
|  |  |  |  |  | | | |
| Requirement 2: | | | | | | | |
|  | a. |  | Direct exchange rate (DER) for January 1, 20X4: | | | | |
|  |  |  | DER = $1 / LCU 0.80 | | | | |
|  |  |  | DER = $1.25 | | | | |
|  |  |  |  | | | | |
|  | b. |  | U.S. dollar versus LCU in 20X4: | | | | |
|  |  |  |  | | | *Indirect* | *Direct* |
|  |  |  |  | | Exchange Rate | | Exchange Rate |
|  |  |  |  | | | *(LCU / $1)* | *($ / LCU 1)* |
|  |  |  | Exchange rates on January 1, 20X4 | | | LCU 0.80 | $1.25 |
|  |  |  | Exchange rates on December 31, 20X4 | | | LCU 0.83 | $1.2048 |
|  |  |  |  | | | | |
|  |  |  | During 20X4, the direct exchange rate has decreased reflecting that it costs less U.S. currency for one foreign currency unit at the end of the year as compared with the beginning of the year. Therefore, the U.S. dollar has strengthened during the year 20X4. Alternatively, the indirect exchange rate has increased indicating it costs more in LCU to acquire $1 at December 31, 20X4, than at January 1, 20X4. | | | | |

**P12-33 Proof of Translation Adjustment**

a.

|  |  |  |  |
| --- | --- | --- | --- |
| MaMi Co. Ltd.  Proof of Translation Adjustment  Year Ended December 31 | | | |
|  | Translation | |  |
|  | MXP | Rate | $ |
| Net assets at beginning of year | 575,000 | $0.087 | 50,025 |
| Adjustment for changes in net |  |  |  |
| assets position during year: |  |  |  |
| Net income for year | 270,000 | $0.090 | 24,300 |
| Dividends | (150,000) | $0.0915 | (13,725) |
|  |  |  |  |
| Net assets translated at: |  |  |  |
| Rates during year |  |  | 60,600 |
| Rates at end of year | 695,000 | $0.093 | 64,635 |
|  |  |  |  |
| Change in other comprehensive |  |  |  |
| income-translation adjustment |  |  |  |
| during year (net increase) |  |  | 4,035 |
|  |  |  |  |
| Accumulated other comprehensive | |  |  |
| income-translation adjustment, 1/1 (credit) | |  | 3,250 |
|  |  |  |  |
| Accumulated other comprehensive | |  |  |
| income-translation adjustment, 12/31 (credit) | |  | 7,285 |
|  |  |  |  |
| Note that the proof begins with the net assets at the beginning of the year. The proof shows the change in the other comprehensive income during the year of $4,035. It is a credit or net increase in AOCI because it must offset an increase (debit) in the net assets from $60,600 to $64,635 during the year. A mnemonic here is to remember that the debits must equal the credits. | | | |
|  | | | |
| If you were to prove the total AOCI of $7,285, then the proof should begin with the net assets at the time the subsidiary was acquired and then make the adjustments in net income, dividends, and other changes in net assets over the years since acquisition, at the appropriate exchange rates. Or, the change in this year of $4,025 credit can simply be added to the beginning of the period AOCI credit balance of $3,250. | | | |
|  | | | |
| b. The U.S. dollar weakened against the Mexican peso during the year shown by the increase in the direct exchange rate indicating it costs more U.S. currency to acquire one Mexican peso at the end of the year ($0.093) as opposed to the U.S. currency cost of one Mexican peso at the beginning of the year ($.087). | | | |

**P12-33** (continued)

Another way of viewing the proof of the ending balance in AOCI is:

|  |  |  |  |
| --- | --- | --- | --- |
| Translated Balance Sheet, 1/1 | | | |
|  |  |  |  |
| Net assets | $50,025 | Stock and RE | $46,775 (plug) |
|  |  | AOCI (given) | 3,250 |
| Total | $50,025 |  | $50,025 |
|  |  |  |  |
|  |  |  |  |
| Translated Balance Sheet, 12/31 | | | |
|  |  |  |  |
| Net assets | $64,635 | Stock and RE | $46,775 (from 1/1) |
|  |  | Retained earnings change: | |
|  |  | ($24,300 – $13,725) | 10,575 |
|  |  | AOCI (plug) | 7,285 |
| Total | $64,635 |  | $64,635 |