

Multinational Accounting: Issues In Financial Reporting And Translation of Foreign Entity Statements

Choll → كل شركة فيهم عندها عملة معينة وأحد الشركات يعرفها
عملته بالشركة الثانية [عملة البيع أو امتلاك الكاش] يعني في
Risk على أحد الشركتين بالتالي يكون عندي

Foreign Currency Transaction → ينتج عنه
Gain or Loss ↓

CH.12 → Consolidation مزج ككبر عن

Parent company → عملتها مختلفة عن Subsidiary Company

بما أني عندي Consolidation Financial Statement بلنزم
أحول عملة Adjusted Trial Balance اللي جاي عن الشركة
التابعة لعملة الشركة الأم [بتربطها أجمع نفاوح مع برتقال]

(2)

Concepts :

← مراجع

* Local Currency: (L.C)

→ العملة المحلية

عملة الدولة الموجودة فيها الشركة

* Functional Currency: (F.C)

→ العملة الوظيفية

تتغير بناءً على المعاملات المالية في الشركة

* Reporting Currency: (R.C)

→ عملة التقارير

عملة الشركة الأم [العملة التي تُخبر بها الشركة الأم قوائمها المالية]

→ في هذا السبب نفضلها أنها \$ و £

→ In CH. 11 : L.C = F.C = R.C

∴ No restatement method Needed

→ In CH. 12 : L.C ≠ F.C ≠ R.C

The Types of Exchange Rates

① Current Exchange Rate (CER) سعر الصرف يوم تحضير القوائم المالية

② Average Exchange Rate (AER) $\frac{\text{Bego} + \text{Endo}}{2}$

③ Historical Exchange Rate (HER)

→ Bus. combination أو يوم حدوث المعاملة أو يوم حدوث أيها حدث لاحقاً (أيها أجدد)

* Assume cash dividends @ Nov. 1 → Transaction date → ER = 1.40

Bus. combination @ Jan. 1 → ER = 1.33

\$ 1.40 ← [Transaction Date] التاريخ الذي حدثت فيه المعاملة

من شرح ده صوابو شماس :

Translation method :
↳ Current Rate method

$L.C = F.C \neq R.C$
 $peso = peso \neq U.S \$$

examples

Adjo. Trial Balance من يتم مطابقة الحسابات من

- ① All Assets and Liabilities are translated using [CER]
- ② All Stockholders Equity Accounts are translated using [HER]
- ③ All ~~Assets~~ Revenues & Expenses are translated using [AER]

* لأن مع الطرف المستقيم في ترجمة الحسابات مختلف
تظل توازن الحسابات في Dr. & Cr. وينتج Gains or losses
ولا يتم تضمينها في Net Income وتكون جزء من

Other comprehensive Income
Closing Entry
Acc. other comprehensive Income

* Dr. > Cr. → translation Gain في جانب Cr.

Dr. < Cr. → translation loss في جانب Dr.

(4)

Remeasurment method:

↳ Temporal method [monetary - Non-monetary method]

① L.C ≠ F.C = R.C
peso ≠ U.S \$ = U.S \$
| Remeasurment |

OR

② L.C ≠ F.C ≠ R.C
peso ≠ Real ≠ U.S \$
| Remeasurment | | Translation |

Remeasurment في Adj. Trial Balance من معالجة الحسابات

- Balance Sheet Account
- ① All monetary Assets [Cash & Receivables] are remeasured using [CER].
 - ② All monetary liabilities are remeasured using [CER].
 - ③ All Non-monetary Assets & liabilities are remeasured using [HER].
 - ④ All Stockholders Equity are remeasured using [HER].
- Income statement account
- ⑤ Revenues & Expenses are Remeasured using [AER] except For Revenues & Expenses that are related to Non-monetary Assets & Liabilities.
 - ⑥ Revenues & Expenses related to Non-monetary Assets & liabilities are remeasured using [HER].

5

Non-monetary Assets like:

Inventory → Cost of Good Sold [Expense]
• [HER] ← بيت

Fixed Asset → Dep. Expense

• [HER]

← بيت

الفرد به Dr. & Cr. بيت Gain or loss بتغير

Closing Entry → Net Income

Retained Earning Income Summary

*

Dr. > Cr. → Remeasurment Gain

Cr. بيت

Dr. < Cr. → Remeasurment loss

Dr. بيت

* 4-major Items in Other Comprehensive Income :

① Foreign currency translation Adjustment

- ↳ Translation Gains
- ↳ Translation losses

② Unrealize holding Gains or losses on Available for sale securities.

③ Revaluation of cash flow hedges.

- ↳ Revaluation Gain.
- ↳ Revaluation losse.

④ Adjustment on minimum pension liability item

Acc. other comprehensive income → [4 ← 1]

Example page 623

* Foreign currency units
لغير حسابات كاش وكن بوحدة
أجنبية

L.C = F.C ≠ R.C
€ = € ≠ U.S \$
translation

Date	ER
Jan. 1, 20x1	\$ 1.2
Oct. 1, 20x1	1.36
Dec. 1, 20x1	1.4
Average 20x1	1.3 → $\frac{1.2 + 1.4}{2}$

* الحسابات من USD ب

Parent Books

① @ Date of Bus. combination

Dr. Investment in sub.	63,000
Cr. Cash	63,000

② Optional Elimination Entry [HER]

Dr. Acc. Dep. → [€ 5000 X \$1.2]	6000
Cr. B & E -s	6000

(8)

After one year : Dec. 31. 20x1

Items

ASSETS	Cash	BALANCE € × X Current Exchange Rate [1.4] <hr/> BALANCE \$
	FCU _s	
	Receivables	
	Inventory	
	Plant & Equipment	

Expenses & losses	COGS	BALANCE € × X Average Exchange Rate <hr/> BALANCE \$
	Operating Expenses	
	F.C transaction loss	
	Dividend paid	

SHE	Dividends paid	$BALANCE(€) \times HER = BAL.(\$)$ <small>لـ يوم الإعلان</small>
-----	----------------	---

Total Debits \$ 168,200

<small>contra asset</small>	Acc. Dep.	BALANCE € × X Current Exchange Rate <hr/> Balance \$	Total \$ 157,200
<small>liabilities</small>	A/P		
	B/P		

SHE	C.S	$BAL.€ \times HER = BAL \$$ <small>Bas. comb. لـ يوم</small>
	R.E	

Revenue ← Sales	$BAL.€ \times AER = BAL \$$
-----------------	-----------------------------

Translation Gain [168,200 - 157,200] 11,000

Total Credit \$ 168,200

Parent Book [Rev. - Exp] → AER
 after one year → Net Income = €12,500 × \$1.3 = \$16,250

Dr. Investment in Sub. 16,250
 Cr. Income from sub. 16,250

[SHE Account] Dividend ⇒ €6,250 × 1.36 = \$8,500 → Trial Balance
 [HER] Translation entry

Dr. Cash 8,500
 Cr. Investment in Sub. 8,500

Translation Gain Entry:

Dr. Investment in Sub. 11,000
 Cr. Other Comprehensive Income - translation Gain 11,000

← لو كان عربي Translation loss
 وبيع translation Gain

To Calculate the differential Amortization
 في الامتحان مطلوب مني في الأربعة ←

الشركة دفعت \$3000 من B.V عن
 [UL = 5 years] patent كإيف

\$3000 = €2500 / 5 → €500 differential amortization
 AER ← translation → [Exp. بعير]

AER
↓

$$€ 500 \times \$1.30 = \$650$$

∴ Dr. Incom From Sub. 650
 Cr. Investment in sub. 650

$$\text{Remaining patent } (\$) \rightarrow 3000 - 650 = \underline{\$2,350}$$

$$\text{Remaining patent } (€) \rightarrow 2500 - 500 = \underline{€2,000}$$

CER translation جزو B.O.S لكن يوم قضاير patent ن

$$\therefore €2,000 \times 1.4 \text{ [CER]} = \$2,800$$

~~2,350~~

translation value > B.O.U → diff. translation gain
 translation value < B.O.U → diff. translation loss

$$\therefore \$2,800 - \$2,350 = \$450 \rightarrow \text{Gain}$$

Dr. Investment in Sub. 450
 Cr. OCI - Differential translation 450

[في حالة loss في القيد]

* هذا الكمي كما بب Differential و غير عيني
 فقط لا يقبل دوقت مبلغ الاعلان B.O.U

~~Differential~~

Parent Books @ Dec. 31

Balance Sheet

Investment in Sub

I.I 63,000 N.I 16,250 OCI - FCT gain 11,000 OCI - D.T 450	Div 8,500 D.A 650
<div style="border: 1px solid black; padding: 2px; display: inline-block;">81,550</div>	

Income Statement

Income from Sub.

D.A 650	M.I 16,250
<div style="border: 1px solid black; padding: 2px; display: inline-block;">15,600</div>	

- I.I : Initial Investment
- N.I : Net Income
- D.T : Differential translation
- D.A : Differential Amortization

Optional Elimination Entr

Dr. Acc. Dep. (5000 x 1.20) 6000
 Cr. B & E 6000

Basic & Reclassification Elimination Entry

Dr. Co S-s [HER] A. Es [HER] Incom from sub. - P OCI - FCT Gain - P OCI - D.T - P Amortization Exp. - S patent - S Dividend Declared - S Inv. In Sub.	48,000 84,000 12,000 15,600 [T-account] 11,000 450 650 2,350 8,500 81,55 [T-account]
---	--

loss لو بكونوا ع Cr.

Closing Entries

① Dr. Income from Sub. 15,600
 Cr. R.E 15,600

② Dr. OCI, FC translation Gain 11,000
 OCI, Diff. translation 450
 Cr. Acc. OCI 11,450

Example Page 636

LoC ≠ F.o.c = R.o.c
 € ≠ \$ = \$
Remeasurement

Date	ER
Jan. 1. 2011	\$ 1.20
Oct. 1. 2011	1.36
Dec. 31. 2011	1.40
Average	1.30 → $\frac{1.2 + 1.4}{2}$

Ending Inventory was acquired when DER ~~was~~ $[\$1.38 = €1]$

Cash
FCUs
Receivables] Monetary Assets
CER

Inventory] Non monetary Asset [HER]

Plant & Equipment] Non monetary Asset [HER]

Cost of Good Sold] Non monetary ^{مصاريف متعلقة بالبيع}
Operating Expenses] * بشرطها بحرين

FCT-loss] [AER]

monetary ^{مرتبط بالبيع} ~~is~~ I.S

Div. paid] [HER]

Total Debit \$156,700

Acc. Dep.] Non monetary contra-Asset
[HER]

A/P] Monetary liability
B/P] [CER]

C.S] SHF Accounts
R.E] [HER]

Sales] Monetary asset ^{مرتبط مع}
[AER]

Total \$155,700
1,000

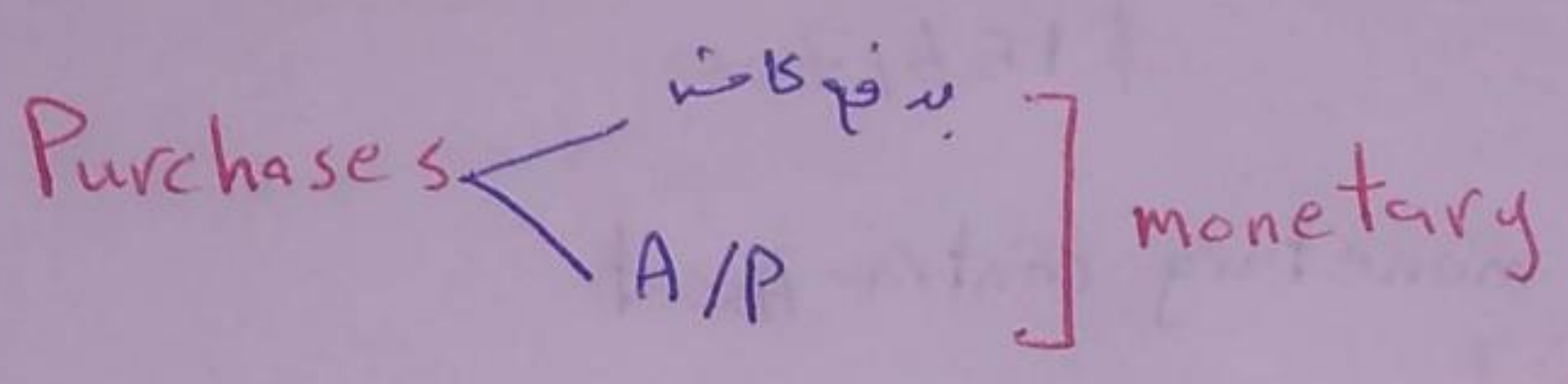
Remeasurment Gain

Total Credit \$156,700

* Cost of Good Sold

$$\begin{array}{r}
 \text{Beg. Inventory [HER]} \\
 + \text{ Purchases [AER]} \\
 \hline
 \text{Cost of Good Available for sale} \\
 - \text{ (End. Inventory) [HER]} \\
 \hline
 \text{Cost of Good Sold}
 \end{array}$$

بما أن العملية تتم على عدة مراحل بحيث عند كل
أكثره ER و HER يكون متكلف بأداء عمل توازن الكدوت



* Operating Expense

AER ← monetary مرتبطة بالدفول monetary
 HER ← Non monetary

- Cash Exp. [AER]
- Dep. Exp. [HER]
- Amortization exp. [HER]

Entry In parent Books:

Dr. Investment In Sub.	1000
Cr. Remeasurment Gain	1000

Closing Entry:

Dr. Remeasurment Gain	1000
Cr. R.E	1000

لو اكلالة فإبرة يكون القيد بالعكس ويكون اسعو
Remeasurment loss.

Notes:

* Marketable securities → Financial Assets
 Monetary Asset ← Reamesurment بحاطها وكانها

* Monetary liabilities تكون مثل
 Unearned service revenue ← Non monetary liability على

Cash لأف ما رح أقدم خدمة .
 رة أقدم خدمة .

توفد مع الصرف يوم B.C
 أو صروت المعاملة أيها أصدت

P12-21 Page: 665-666

Parent acquired all of Subsidiary CoS @ B.O.U On Jan. 1. 2004
Noncontrolling Interest و Deffivential ← فـ

LoC = F.o.C ≠ R.o.C
Real = Real ≠ U.S. \$
[translation]

* نقطة الانطلاق في
أصل F.o.C عنان
translation → أقرر أصل
Remeasurment

Inventory بالوالت B.S ⇒ *
(Raal) 95,000
في بداية السنة ونهايتها كل
COGS = Cost of Good purchased أن

① End. Inventory → ^{بأصل} FIFO : First in First out
[HER] ← يعني من طرف آخر عملية هو الذي يحتر

② Insurance premium for 2-year was paid on October. 1. 2003
Bus. combination قبل ←
بكون من تاريخ Bus. combination (لأنه أحدث)

③ Plant & Equipment were aquire as follow:

Date	Cost per real	
Jan. 1. 2001	200,000] Before Bus. Combination
July. 10. 2002	50,000	
April. 7. 2004	100,000] After Bus. Combination

④ Plant & Equipment are depreciated using Straight-line method
U.L = 10 year & No residual value. Full months dep. is taken in the month of acquisition.

يعني لما احب الاستعلاء للشركة في April 7 بحسب

اي استعملته الشهر كامل [لو شريته باخر يوم في الشهر ← Full month]

⑤ the intangible assets are patent acquired on July. 10. 2002
@ Cost Real 60,000 and U.L = 5 years.
Bus. Combination قبل

⑥ C.S was issued on Jan. 1, 2001 B.C قبل

⑦ Dividends } Real 10,000 on April. 9. 2004
Real 15,000 on October. 9. 2004 B.C بعد

Date Exchange Rate (\$)

Jan. 1. 2004	0.30
April. 7. 2004	0.28
Oct. 9. 2004	0.23
Dec. 31. 2004	0.20 → CER
2004 Average	0.25

← ER قبل B.C ليس له داعي

Required

Prepare a schedule translating the Dec. 31, 2004, trial Balance of Sub. From real to \$ assuming the real is the F.C.

Trial Balance Translation
December 31, 2004

	Reals	Exchange Rate	U.S. \$
Cash	Real 57,700	0.2 CER	\$ 11,540
A/R	82,000	0.2 CER	16,400
Inventory	95,000	0.2 CER	19,000
Prepaid Insurance	2,400	0.2 CER	480
Plant & Equipment	350,000	0.2 CER	70,000
Intangible Assets	30,000	0.2 CER	6,000
COGS	230,000	0.25 AER	57,500
Insurance expenses	3,200	0.25 AER	800
Dep. Exp.	32,500	0.25 AER	8,125
Amortization exp.	12,000	0.25 AER	3,000
Operating exp.	152,300	0.25 AER	38,075
Dividends paid	25,000	0.25 AER (a)	6,250
Total Debit	Real 1,072,100		\$ 237,170
Acc. dep.	100,000	0.2 CER	20,000
A/P	24,000	0.2 CER	4,800
Incom tax Payable	27,000	0.2 CER	5,400
Interest Payable	1,100	0.2 CER	220
N/P	20,000	0.2 CER	4,000
B/P	120,000	0.2 CER	24,000
C.S. → B.C. أحدث	80,000	0.3 HER	24,000
APIC →	150,000	0.3 HER	45,000
R.E. → الأرباح السنوية الأخرى يكون B.C. HER	50,000	0.3 HER	15,000
Total Credit Sales	500,000	0.25 AER	125,000
Total Credit	Real 1,072,100		\$ 267,420

Total Dr. < Total Credit

237,170 < 267,420 → 30,250 loss
← في جانب Dr.

Dr. Translation loss 30,250
Cr. Investment in sub. 30,250

(9) Dividend

→ على الطرف المقابل

Div @ April 7 [HER = 0.28] → 10,000 × 0.28 = \$2,800

Div @ October 9 [HER = 0.23] → 15,000 × 0.23 = \$3,450

Total

Real 25,000

\$6,250

Closing Entry: AOCI Gain لو كات Gain

Dr. Acc. other comprehensive loss 30,250

Cr. Translation loss 30,250

Assume that the \$ is F.C

✓ L.C ≠ F.C = R.C

Real ≠ \$ = \$

Remeasurement

← على تقدر المعطيات السابقة

*(M) = Monetary
 (NM) = Non-Monetary

Trial Balance Remeasurement
 December 31, 2004

Account	Real	ER	US \$
			11,540
Cash		0.20 CER	16,400
A/R	*	0.20 CER	16,400
Inventory		0.25 HER	23,750
Prepaid Insurance		0.30 HER	23,750
Plant & Equipment		(a)	720
Intangible Asset		0.30 HER	103,100
COGS		(b)	103,100
Insurance exp.		0.30 HER	9,000
Dep. exp.		(c)	62,250
Amortization exp.		0.30 HER	62,250
Operating exp.		0.30 HER	9,600
Div. exp. paid		(d)	3,600
Total Dr	Real 1,072,100		285,145
A/P		0.20 CER	\$ 4,800
Acc. dep.		(E)	29,850
Incom tax payable		0.20 CER	5,400
Interest payable		0.20 CER	220
N/P		0.20 CER	4,000
B/P		0.20 CER	24,000
C/S		0.30 HER	24,000
APIC		0.30 HER	45,000
R.E		0.30 HER	15,000
Sale		0.25 AER	125,000
Total Cr.	Real 1,072,100		\$ 277,270

* في المراحل

(29)

Total Dr > Total Cr.

285,145 > 277,270 → Remeasurement Gain
Dr. حساب و

7,875

Closing Entry:

Dr. Remeasurement Gain 7,875
Cr. Income Summary 7,875

~~Closing Entry~~

Dr. Income Summary 7,875
Cr. R.E 7,875

~~Journal Entry~~
~~Dr. Remeasurement Gain~~

(a) Plant & Equipment

Before B.C	Jan. 1, 2001	200,000	HER @ B.C		
	July 10, 2002	50,000		x 0.3	= \$75,000
	April 7, 2004	100,000		x 0.28	= 28,000
					Total 103,000

Jan. 1, 2001 → 4 years عمره
 July 10, 2002 → 20.5 years عمره
 April 7, 2004 → 9 months عمره

(b) Cost of Good Sold

Beg. Inv.	95,000
+ purchases	+ 230,000
<u>Good Available</u>	<u>325,000</u>
- (End. Inv.)	(95,000)
	<u>230,000</u>

ER	B.C
0.13	HER
0.25	AER
0.25	HER
	transaction

28,500
+ 57,500
<u>86,000</u>
(23,750)
<u>\$ 62,250 (COGS)</u>

(C) Depreciation Expens

Before B.C $\rightarrow \frac{250,000}{(U.L)10} = \overset{\text{Real}}{\$25,000} \times \overset{\text{HER@BC}}{0.3} = \$7,500$

April. 7. 2004 $\rightarrow \frac{100,000}{10} \times \frac{9}{12} = \overset{\text{Real}}{7,500} \times \overset{\text{HER@BC}}{0.28} = \$2,100$

\downarrow
 HER@ transaction Date
\$9,600
 total

(d) Dividends paid.

April. 7. 2004	Real 10,000	X	HER@ transaction Date 0.28	=	\$ 2,800
October. 9. 2004	Real 15,000	X	0.23	=	\$ 3,450
					<u>\$ 6,250</u>

(E) Accumulated Depreciation

	Real	HER
Janil, 2001 \rightarrow 4 سنوات $\rightarrow \frac{200,000}{10} \times 4 = 80,000$	X	0.30 [B.C Rate]
July, 10, 2002 \rightarrow 2.5 سنة $\rightarrow \frac{50,000}{10} \times 2.5 = 12,500$	X	0.30 [B.C Rate]
April, 7. 2004 \rightarrow 9 اشهر $\rightarrow \frac{100,000}{10} \times \frac{9}{12} = 7,500$	X	0.28 [transaction Rate]

$\therefore 80,000 \times 0.30 = \$24,000$
 $12,500 \times 0.30 = \$3,750$
 $7,500 \times 0.28 = \$2,100$
\$ 29,850

✓ RIBA
MTOOR