

## **E-tivity 2.2: Translation of foreign currency transactions in an individual entity's books and preparing the foreign operation consolidation workings**

### **2.2.1. Initial recognition of foreign currency transactions in an individual company's books**

**Question 1:** FCTO (a Germany company) buys goods from Bralirwa plc (supplier, Rwanda). The order is placed on 1 May and the agreed price is FRw 124,250. At the time of delivery, the rate of foreign exchange was FRw 3.50 to €1.

**Required:** Show how the transaction will be recorded in the books of FCTO?

**Question 2:** A company which uses US dollars sells goods to a Chinese company, and it is agreed that payment should be made in Chinese Yuan at a price of Y116,000. The exchange rate at the time of sale is Y10.75 to \$1, but when the debt is eventually paid before the year end, the rate has altered to Y10.8 to \$1.

**Required:** Record these transactions (sale and payment) in the books of the selling company?

**Question 3:** A £ user company borrowed US\$900,000 on 3 June when the spot rate was \$1.80 = £1. At 31 December the exchange rate was \$1.90 = £1. An interest payment of \$18,500 was made on 3 December when the spot exchange rate was \$1.85. The loan is a monetary item, denominated in US dollars.

**Required:** Show how the transaction will be recorded in the borrowing company's books?

**Question 4:** A £ user company has a financial year ending on 31 December. It buys goods from a supplier in France on 17 November 20X6 invoiced in euros €140,000. The French supplier is eventually paid in March 20X7.

Exchange rates over the period were as follows:

- 17 November 20X1 €1 = £0.70
- 31 December 20X1 €1 = £0.75
- Average for November €1 = £0.72

**Required:** Show how the purchase transaction will be recorded?

**Question 5:** A £ user company bought a machine from a € user supplier for €260,000 on 1 March when the exchange rate was €1.30 = £1. By 31 December, the end of the company's accounting year, the exchange rate was €1.20 = £1. At 31 December, the £ company had not yet paid the German supplier any of the money that it owed for the machine.

**Required:** Show how the purchase transaction will be recorded?

### **2.2.2. Foreign currency operation consolidation workings**

**Question 6:** A parent company based in UK (£) has a subsidiary in the USA (\$), which is 100% owned. The following information is available about the subsidiary for the year to 31 Dec. Year 5:

Opening net assets, 1 January	\$20,000
Profit for the year	\$10,000
Closing net assets, 31 December	\$30,000
Dividends paid	\$0

Relevant \$/£ exchange rates are as follows:

1 January Year 5	\$1.70 = £1
Average for the year	\$1.80 = £1
31 December Year 5	\$1.90 = £1

**Required:** Calculate the total gain or loss on translation for the year, analysing it between:

- the gain or loss on re-translating income and expenses
- the gain or loss on re-translating the opening net assets.

**Question 7:** A Rwandan holding company acquired 100% of the capital of a Burundian subsidiary on 30 September Year 6 at a cost of FrB 8 million. The fair value of the net assets of the subsidiary at that date was FrB 3 million. The holding company prepares financial statements at 31 December each year. The company uses the partial goodwill method to account for non-controlling interests, and no goodwill is attributed to NCI.

Relevant FrB /FRw exchange rates are as follows:

30 September Year 6	FrB 2.00 = FRw 1
31 December Year 6	FrB 1.90 = FRw 1

**Required**

- Calculate the goodwill arising at the date of the acquisition, in FRw.
- Calculate the goodwill (in FRw) which will appear in the consolidated statement of financial position as at 31 December Year 6.

**Question 8:** On 1 July 20X4, Hail plc, who has the \$ as its functional and presentation currency, acquired 80% of the equity share capital of Snow Ltd for cash consideration of \$10 million. Snow is based in a different country to Hail and has the dinar (Dn) as its functional currency.

- At the date of acquisition, Snow had issued equity capital of Dn5 million and retained earnings of Dn25 million. At that date, the carrying values of the separable net assets of Snow approximated to their fair values. The fair value of the non-controlling interest in Snow on 1 July 20X4 was Dn7.5 million
- At the date of reporting date, Hail had retained earnings of \$15 million and Snow had retained earnings of Dn43.5 million. Relevant rates of exchange are as follows:

Dn to \$1 (i.e. ?Dn=\$1)

1 July 20X4	4.0
30 June 20X5	5.0
Average for the year	4.5

**Required:** Calculate the following amounts that would be included in the Hail group financial statements for the year ended at 30 June 20X5:

- Foreign exchange gain or loss on retranslation of net assets
- Foreign exchange gain or loss on retranslation of goodwill
- Non-controlling interest at 30 June 20X5
- Group retained earnings at 30 June 20X5
- Group foreign exchange reserve at 30 June 20X5
- Amount taken to other comprehensive income for the year ended 30 June 20X5