What Are Foreign Currency Transactions?

Worksheet

A foreign currency transaction gain or loss equals the change in exchange rate between the transaction date and the settlement date, multiplied by the foreign currency amount; translation restates a foreign subsidiary's financials into the parent's reporting currency.

A_{rpt} = A_{fg} @ times @text{ER}

Questions

1. A receivable of 100,000 is booked at a rate of 0.030 USD/ and settled at 0.032 USD/. What is the gain or loss?

A) $200 loss
B) $200 gain
C) $2,000 gain
D) $0

2. Under the current rate method, which exchange rate translates the balance sheet's assets and liabilities?

A) Historical rate
B) Average rate for the period
C) Closing rate at the balance sheet date
D) Forward rate

3. Where is a translation adjustment recognized?

A) Net income
B) Cost of goods sold
C) Other Comprehensive Income
D) Retained earnings directly

4. A company owes a foreign supplier; the foreign currency weakens before payment. This results in:

A) A foreign exchange loss
B) A foreign exchange gain
C) No effect on income
D) An increase in the liability

5. A US company sells goods to a European client for 50,000 when the rate is $1.10/. At settlement 60 days later, the rate is $1.15/. Find the foreign exchange gain or loss.

6. A company owes a Japanese supplier 2,000,000 when the rate is $0.0070/. At payment, the rate is $0.0065/. Find the gain or loss on the payable.

7. A UK subsidiary has total assets of 1,000,000, translated at year-end closing rate of $1.25/. Historical equity was 600,000 at a rate of $1.30/ when contributed. Find the translated equity in USD.

8. Define: What causes a foreign exchange transaction gain or loss?

9. Define: What rate translates assets and liabilities under the current rate method?

10. Define: What rate translates equity accounts?

Answer Key

1. B) $200 gain - (0.032 0.030) 100,000 = $200 gain.

2. C) Closing rate at the balance sheet date - Assets and liabilities are translated at the current (closing) rate.

3. C) Other Comprehensive Income - Translation adjustments accumulate in OCI, not net income.

4. B) A foreign exchange gain - If the currency owed weakens, less reporting currency is needed to settle it - a gain on the payable.

5. Rate change = $1.15 $1.10 = $0.05 per Gain = $0.05 50,000 = $2,500 gain (euro strengthened, receivable worth more)

6. Rate change = $0.0065 $0.0070 = $0.0005 per Change in payable value = $0.0005 2,000,000 = $1,000 Since it's a liability, a decrease in value is a $1,000 gain

7. Translated equity = 600,000 $1.30/ = $780,000 (equity uses the historical rate, not the closing rate)

8. A change in the exchange rate between the transaction date and the settlement date.

9. The closing (current) exchange rate at the balance sheet date.

10. The historical exchange rate in effect when the equity was contributed.