

2.

French Company Trial Balance
As of End of First Three Months

	In French Francs	Relevant Exchange Rate	In U.S. Dollars
Cash (Note A)	375,000	\$0.24	\$ 90,000
Accounts Receivable (Note B).....	1,833,333	0.24	440,000
Inventory.....	200,000	0.20	40,000
General and Administrative Expenses	458,333	0.24	110,000
Exchange Loss:			
On Cash.....	166,667	0.24	40,000
On Receivables.....	166,667	0.24	40,000
Cost of Sales.....	1,400,000	0.20	280,000
Total Debits	<u>4,600,000</u>		<u>\$1,040,000</u>
Sales	2,000,000	0.22	\$ 440,000
Contributed Capital	2,600,000	0.20	520,000
Translation Adjustment			80,000
Total Credits	<u>4,600,000</u>		<u>\$1,040,000</u>

Note A: The cash balance was initially 1,000,000 FF ($\$200,000 \div 0.20$) and 833,333 FF ($\$200,000 \div 0.24$) prior to paying the general and administrative expenses of 458,333 FF ($\$110,000 \div 0.24$). Therefore, the cash balance in FFs is 375,000 and the company would have recorded an exchange loss of 166,667 FF ($1,000,000 - 833,333$).

Note B: The accounts receivable had a balance of 2,000,000 FF ($\$440,000 \div 0.22$) at the time of the sale and a balance of 1,833,333 FF ($\$440,000 \div 0.24$) at the end of the three-month period. The French company would have recorded an exchange loss of 166,667 FF ($2,000,000 - 1,833,333$).

The objectives of translation have been achieved in this example as a result of recognizing the U.S. dollar as the functional currency. The French company's translated financial statements are identical to those that would have resulted had the transactions been originally recorded in the dollar functional currency. Furthermore, the total increase in equity is \$50,000 ($\$80,000$ exchange loss + $\$50,000$ operating income - $\$80,000$ translation adjustment) and is the same as the net income that would have resulted had the transactions been recorded in dollars.

4. Analysis of "Investment in Foreign Entity" Account

	Balance in U.S. Dollars
Initial investment	\$600,000
Share of investee net income (30% of 140,000 FC × \$2.24)	94,080
Share of investee transaction adjustment (\$13,000 × 30%)	3,900
Amortization of cost over book value related to depreciable assets (Note A)	<u>(4,887)</u>
Balance in investment account.....	<u>\$693,093</u>

Note A: Cost of investment (\$600,000 ÷ 2.20)	272,727 FC
Book value of investment (800,000 × 30%).....	<u>240,000</u>
Excess of cost over book value	<u>32,727</u>

32,727 Excess × 80% depreciable asset = 26,182.

26,182 FC ÷ 12 years × \$2.24 equals amortization of \$4,887.