

Chapter 8 – Advanced Accounting, 1st edition by Hamlen, Huefner, and Largay

Practice Quiz

1. Topic: Translation gains and losses
LO 1
A U.S. company has a subsidiary in the U.K. Regardless of its functional currency, when converting the subsidiary's accounts to U.S. dollars, exposure to translation gains or losses is defined as the subsidiary's:
 - a. Net assets
 - b. Net assets translated at the end-of-year rate
 - c. Assets reported at fair value
 - d. Liabilities

Use the following information to answer questions 2 – 6 below:

A U.S. company acquired a subsidiary in the U.K at the beginning of the year. The subsidiary's beginning and ending trial balances, in pounds, are as follows:

	Beginning balances Dr (Cr)	Ending balances Dr (Cr)
Cash, receivables	£ 100,000	£ 1,300,000
Noncurrent assets, net	6,500,000	5,800,000
Liabilities	(4,000,000)	(4,200,000)
Capital stock	(600,000)	(600,000)
Retained earnings, beginning	(2,000,000)	(2,000,000)
Revenues		(4,000,000)
Out-of-pocket-operating expenses		3,000,000
Depreciation, amortization		700,000

Revenues and out-of-pocket expenses were incurred evenly over the year. Noncurrent assets are carried at amortized cost, and no new noncurrent assets were acquired.

Exchange rates (U.S. dollars/£) are:

Beginning of year	\$1.40
Average for the year	1.42
End of year	1.45

2. Topic: Translation of assets
LO 2, 3
Using the current rate method of translation, the subsidiary's end-of-year total assets are:
- a. \$10,005,000
 - b. \$10,295,000
 - c. \$ 9,940,000
 - d. \$10,082,000
3. Topic: Remeasurement of assets
LO 2, 3
Using the temporal method of remeasurement, the subsidiary's end-of-year total assets are:
- a. \$10,005,000
 - b. \$10,295,000
 - c. \$ 9,940,000
 - d. \$10,082,000
4. Topic: Translation gain or loss
LO 2, 3
Using the current rate method of translation, the translation gain or loss for the year is:
- a. \$126,000 gain
 - b. \$142,000 loss
 - c. \$139,000 gain
 - d. \$165,000 loss
5. Topic: Remeasurement gain or loss
LO 2, 3
Using the temporal method of translation, the remeasurement gain or loss for the year is:
- a. \$126,000 gain
 - b. \$142,000 loss
 - c. \$139,000 gain
 - d. \$165,000 loss

6. Topic: Remeasurement and translation of liabilities

LO 2, 3

The subsidiary's U.S. dollar ending liabilities, using remeasurement (temporal method) and translation (current rate method), are:

	Remeasurement	Translation
a.	\$6,090,000	\$6,090,000
b.	\$6,090,000	\$5,964,000
c.	\$5,964,000	\$6,090,000
d.	\$5,964,000	\$5,964,000

7. Topic: Effect of changing exchange rates on financial analysis

LO 4

An Italian subsidiary's return on investment (ROA) is calculated as income before remeasurement gain or loss, divided by ending total assets. The U.S. dollar has been steadily strengthening with respect to the euro. How does the subsidiary's ROA in euros compare with its ROA remeasured using the temporal method and its ROA translated using the current rate method?

- a. Euro > Current rate > Temporal
- b. Current rate > Temporal > Euro
- c. Euro > Temporal > Current rate
- d. Current rate > Euro > Temporal

8. Topic: Hedges of net investments

LO 5

A U.S. company has a subsidiary in Germany. The subsidiary's functional currency is the euro, and the U.S. dollar has steadily strengthened with respect to the euro. How does an effective hedge of the net investment in the subsidiary affect the consolidated financial statements?

- a. Reduces the remeasurement loss reported on the income statement
- b. Reduces the remeasurement gain reported on the income statement
- c. Reduces the translation loss reported in other comprehensive income on the balance sheet
- d. Reduces the translation gain reported in other comprehensive income on the balance sheet

9. Topic: Hedges of net investments

LO 5

A U.S. company has a subsidiary in Germany. The subsidiary's functional currency is the euro, and it has positive net assets. Which of the following investments is an effective hedge of the company's net investment in the subsidiary?

- a. Notes receivable denominated in euros
- b. Put option in euros
- c. Investments in euro-denominated securities
- d. Forward purchase of euros

10. Topic: IFRS and U.S. GAAP in hyperinflationary economies

LO 3, 7

An Italian parent owns a subsidiary in Venezuela. The subsidiary's functional currency is the local currency, the bolivar. The parent has determined that Venezuela is a hyperinflationary country. The subsidiary holds land costing 1,000,000 bolivar, acquired after the parent acquired the subsidiary, when the general price index was 200 and the exchange rate was €1.50/bolivar. At the end of the current year, the general price index is 1200 and the exchange rate is €0.20/bolivar. IFRS and U.S. GAAP conversion of the subsidiary's land to euros is:

	IFRS	U.S. GAAP
a.	€1,200,000	€1,500,000
b.	€1,500,000	€1,200,000
c.	€1,200,000	€1,200,000
d.	€1,500,000	€1,500,000