

Practice Quiz

1. Topic: Import and export transactions

LO 1

On November 1, 2015, when the spot rate is \$1.40/€, a U.S. company purchases merchandise costing €1,000,000 from a supplier in France. The spot rate is \$1.38/€ on December 31, 2015, the company's year-end. The company pays for the merchandise on January 23, 2016, when the spot rate is \$1.41/€.

What is the effect of the above events on the U.S. company's 2015 and 2016 income?

	<u>2015</u>	<u>2016</u>
a.	\$20,000 gain	\$30,000 loss
b.	\$20,000 loss	\$30,000 gain
c.	\$0	\$10,000 gain
d.	\$0	\$10,000 loss

2. Topic: Import and export transactions

LO 1

On November 1, 2015, when the spot rate is \$1.40/€, a U.S. company sells merchandise to a customer in France at a price of €1,000,000. The spot rate is \$1.38/€ on December 31, 2015, the company's year-end. The company receives payment from the customer on January 23, 2016, when the spot rate is \$1.41/€.

At what amount should the U.S. company report sales revenue from this transaction on its 2015 income statement?

- a. \$1,000,000
- b. \$1,400,000
- c. \$1,380,000
- d. \$1,410,000

3. Topic: Valuation of forward contracts

LO 1

On April 6, 2016, a U.S. company enters a forward sale contract for delivery of 1,000,000 Brazilian real on October 6, 2016, at \$0.56/real. On June 30, 2016, the company's accounting year-end, the forward rate for delivery of real on October 6, 2016, is \$0.52/real.

How is the forward contract reported on the U.S. company's June 30, 2016 balance sheet?

- a. \$ 40,000 liability
- b. \$560,000 liability
- c. \$ 40,000 asset
- d. \$560,000 asset

Use the following information to answer Questions 4 and 5.

Spot and forward rates for the euro are:

	Spot Rate	Forward Rate for April 15, 2016 Delivery
October 15, 2015	\$1.380	\$1.360
December 31, 2015	1.290	1.275
April 15, 2016	1.270	1.270

On October 15, 2015, a U.S. company makes inventory purchases of €1,000,000 from suppliers in Germany. The company plans to pay the suppliers on April 15, 2016. On October 15, the company enters into a forward contract for delivery of €1,000,000 on April 15, 2016. The company's accounting year ends December 31. On April 15, 2016, the company closes the forward contract and pays the suppliers.

4. Topic: Hedges of foreign-currency-denominated receivables and payables

LO 2

How is the U.S. company's 2015 income affected by the above events?

- a. \$ 5,000 loss
- b. \$ 5,000 gain
- c. \$175,000 gain
- d. \$175,000 loss

5. Topic: Hedges of foreign-currency-denominated receivables and payables

LO 2

When the U.S. company sells the inventory, at what amount does it report cost of goods sold?

- a. \$1,270,000
- b. \$1,290,000
- c. \$1,360,000
- d. \$1,380,000

Use the following information to answer Questions 6 and 7.

Spot and forward rates for the euro are:

	Spot Rate	Forward Rate for January 15, 2016 Delivery
December 15, 2015	\$1.290	\$1.300
December 31, 2015	1.320	1.325
January 15, 2016	1.330	1.330

On December 15, 2015, a U.S. company issues a purchase order for merchandise costing €1,000,000 from suppliers in Germany. The company plans to pay the suppliers on delivery of the merchandise, scheduled for January 15, 2016. On December 15, the company enters into a forward contract for delivery of €1,000,000 on January 15, 2016. The forward contract is a qualified fair value hedge of the firm commitment to buy merchandise. The company's accounting year ends December 31. On January 15, 2016, the company takes delivery of the merchandise, closes the forward contract, and pays the suppliers.

6. Topic: Hedges of foreign-currency-denominated firm commitments

LO 3

How is the U.S. company's 2015 income affected by the above events?

- a. No effect
- b. \$25,000 gain
- c. \$ 5,000 loss
- d. \$30,000 loss

7. Topic: Hedges of foreign-currency-denominated firm commitments

LO 3

When the U.S. company takes delivery of the merchandise on January 15, 2016, at what amount will the inventory be reported?

- a. \$1,290,000
- b. \$1,300,000
- c. \$1,325,000
- d. \$1,330,000

Use the following information to answer Questions 8 and 9.

Spot and forward rates for the euro are:

	Spot Rate	Forward Rate for January 15, 2016 Delivery
December 15, 2015	\$1.290	\$1.300
December 31, 2015	1.320	1.325
January 15, 2016	1.330	1.330

On December 15, 2015, a U.S. company forecasts that it will purchase merchandise costing €1,000,000 from suppliers in Germany in mid-January. On December 15, the company enters into a forward contract for delivery of €1,000,000 on January 15, 2016. The forward contract is a qualified cash flow hedge of the forecasted purchase of merchandise. The company's accounting year ends December 31. On January 15, 2016, the company takes delivery of the merchandise, closes the forward contract, and pays the suppliers.

8. Topic: Hedges of foreign-currency-denominated forecasted transactions

LO 4

When the U.S. company takes delivery of the merchandise on January 15, 2016, at what amount will the inventory be reported?

- a. \$1,290,000
- b. \$1,300,000
- c. \$1,325,000
- d. \$1,330,000

9. Topic: Hedges of foreign-currency-denominated forecasted transactions

LO 4

When the inventory is sold, at what amount will the U.S. company report cost of goods sold?

- a. \$1,290,000
- b. \$1,300,000
- c. \$1,325,000
- d. \$1,330,000

10. 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