

Practice Quiz

1. Topic: Translation and remeasurement 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 or remeasurement gains or losses is defined as the subsidiary's:

- a. Net assets
- b. Net assets converted at the end-of-year rate
- c. Assets reported at fair value
- d. Liabilities

2. Topic: Remeasurement gains and losses

LO 1

A U.S. parent has a subsidiary in the U.K. The subsidiary's functional currency is the U.S. dollar, and its liabilities are greater than its assets reported at fair value.

How does a strengthening of the U.S. dollar against the pound affect the remeasurement gain or loss?

- a. A remeasurement loss will be reported in income.
- b. A remeasurement gain will be reported in income
- c. A remeasurement loss will be reported in other comprehensive income.
- d. A remeasurement gain will be reported in other comprehensive income.

Use the following information to answer Questions 3 – 7 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

3. Topic: Translation of assets

LO 1

Assuming the subsidiary's functional currency is the pound, 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: Remeasurement of assets

LO 1

Assuming the subsidiary's functional currency is the U.S. dollar, 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

5. Topic: Translation gain or loss

LO 1

Assuming the subsidiary's functional currency is the pound, 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

6. Topic: Remeasurement gain or loss

LO 1

Assuming the subsidiary's functional currency is the U.S. dollar, 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

7. Topic: Remeasurement and translation of liabilities

LO 1

The subsidiary's U.S. dollar ending liabilities, using remeasurement and translation, are:

	<u>Remeasurement</u>	<u>Translation</u>
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

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

LO 2

An Italian subsidiary's return on investment (ROA) is calculated as income before any 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 remeasured ROA and its translated ROA?

- a. Euro > Translated > Remeasured
- b. Translated > Remeasured > Euro
- c. Euro > Remeasured > Translated
- d. Translated > Euro > Remeasured

9. Topic: Consolidation of international subsidiaries

LO 3

A U.S. parent owns all of the voting stock of its Mexican subsidiary. The subsidiary's functional currency is the peso, and translation is appropriate. The peso has been steadily strengthening against the U.S. dollar. The parent's acquisition cost was significantly greater than the subsidiary's identifiable net assets at the date of acquisition, and the difference was attributed entirely to goodwill. Goodwill was impaired during the current year, but has not been completely written off.

On the consolidation working paper, eliminating entries (R) and (O) will include the following adjustments to other comprehensive income:

- a. (R): dr to OCI (O): cr to OCI
- b. (R): dr to OCI (O): dr to OCI
- c. (R): cr to OCI (O): dr to OCI
- d. (R): cr to OCI (O): cr to OCI

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

LO 1, 4

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:

	<u>IFRS</u>	<u>U.S. GAAP</u>
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