Chapter 7– Advanced Accounting, 3rd Edition by Hamlen, Huefner and Largay

Solutions to Practice Quiz

1. **Topic: Translation and remeasurement gains and losses**
   LO 1
   Answer: b

   Rationale: All accounts translated at the current rate change in U.S. dollar value over time, creating translation or remeasurement gains and losses.

2. **Topic: Remeasurement gains and losses**
   LO 1
   Answer: b

   Rationale: Exposure to remeasurement gains and losses is a net liability position. If the U.S. dollar strengthens against the pound, the net liability position becomes lower in U.S. dollars, a gain. Remeasurement gains are reported in income.

3. **Topic: Translation of assets**
   LO 1
   Answer: b

   Rationale: All assets are translated at the current rate. (£1,300,000 + £5,800,000) x $1.45 = $10,295,000

4. **Topic: Remeasurement of assets**
   LO 1
   Answer: a

   Rationale: Cash and receivables are remeasured at the current rate. Noncurrent assets are remeasured at the rate when acquired. (£1,300,000 x $1.45) + (£5,800,000 x $1.40) = $10,005,000

5. **Topic: Translation gain or loss**
   LO 1
   Answer: c

   Rationale: Exposure is defined as the subsidiary's net asset position.

Beginning exposure	£2,600,000	x $1.40	$3,640,000
+ Net income	300,000	x 1.42	426,000
			4,066,000
Ending exposure	£2,900,000	x 1.45	(4,205,000)
Translation gain			$ (139,000)

6. Topic: Remeasurement gain or loss
LO 1
Answer: d

Rationale: Exposure is defined as the subsidiary's net assets reported at fair value.

Beginning exposure	£(3,900,000)	x	$1.40	$(5,460,000)
+ Revenues	4,000,000	x	1.42	5,680,000
– Out-of-pocket expenses	(3,000,000)	x	1.42	(4,260,000)
				(4,040,000)
Ending exposure	£(2,900,000)	x	1.45	(4,205,000)
Remeasurement loss				$ 165,000

7. Topic: Remeasurement and translation of liabilities
LO 1
Answer: a

Rationale: Both translation and remeasurement use the current rate to convert liabilities to U.S. dollars. £4,200,000 x $1.45 = $6,090,000

8. Topic: Effect of changing exchange rates on financial analysis
LO 2
Answer: d

Rationale: Historical rates > Average rate > Ending rate.

Translation: The numerator is converted using the average rate and the denominator is converted using the ending rate; the result is greater than the euro ROA.

Remeasurement: The numerator is converted using the average rate for revenues and a mix of average and historical rates for expenses. The denominator is converted using a mix of average and historical rates. The result is less than the euro ROA.

9. Topic: Consolidation of international subsidiaries
LO 3
Answer: c

Rationale: If the peso is strengthening against the U.S. dollar, the end of year $/peso rate is higher than the average rate and the average rate is higher than earlier rates. In eliminating entry (R), the dr to goodwill as of the beginning of the year is translated using the ending rate, while the remaining investment is credited. The investment was valued at earlier rates, which were lower. Therefore OCI is credited to balance the entry. In eliminating entry (O), the dr to impairment loss is translated using the average rate, while the credit to goodwill is translated at the ending rate, which is higher. Therefore, OCI is debited to balance the entry.

10. Topic: IFRS and U.S. GAAP in hyperinflationary economies
LO 1, 4
Answer: a

Rationale:
IFRS: (1200/200) x 1,000,000 = 6,000,000 x €0.20 = €1,200,000
U.S. GAAP: 1,000,000 x €1.50 = €1,500,000