Question: EXCEL CASE—TRANSLATING FOREIGN CURREN...

EXCEL CASE—TRANSLATING FOREIGN CURRENCY FINANCIAL STATEMENTS 2020

Charles Edward Company established a subsidiary in a foreign country on January 1, ~~2017~~, by investing FC 3,200,000 when the exchange rate was $0.50/FC. Charles Edward negotiated a bank loan of FC 3,000,000 on January 5, ~~2017~~ 2020, and purchased plant and equipment in the amount of FC 6,000,000 on January 8, ~~2017~~ 2020. It depreciated plant and equipment on a straight-line basis over a 10-year useful life. It purchased its beginning inventory of FC 1,000,000 on January 10, ~~2017~~ 2020, and acquired additional inventory of FC 4,000,000 at three points in time during the year at an average exchange rate of $0.43/FC. It uses the first-in, first-out (FIFO) method to determine cost of goods sold. Additional exchange rates per FC 1 during the year ~~2017~~ follow: 2020

January 1–31, ~~2017~~	$0.50
Average ~~2017~~ 2020	0.45
December 31, ~~2017~~	0.38

INCOME STATEMENT
For the Year Ended December 31, ~~2017~~ 2020
FC (in thousands)

Sales	FC 5,000
Cost of goods sold	3,000
Gross profit	2,000
Selling expense	400
Depreciation expense	600
Income before tax	1,000
Income taxes	300
Net income	700
Retained earnings, 1/1/17	-0-
Retained earnings, 12/31/17	FC 700

BALANCE SHEET
At December 31, ~~2017~~ 2020
FC (in thousands)

Cash	FC 1,000
Inventory	2,000
Property, plant & equipment	6,000
Less: Accumulated depreciation	(600)
Total assets	FC 8,400
Current liabilities	FC 1,500
Long-term debt	3,000
Contributed capital	3,200
Retained earnings	700
Total liabilities and stockholders' equity	FC 8,400

As the controller for Charles Edward Company, you have evaluated the characteristics of the foreign subsidiary to determine that the FC is the subsidiary's functional currency.

Required:

1) Use an electronic spreadsheet to translate the foreign subsidiary's FC financial statements into U.S. dollars at December 31, ~~2017~~ 2020, in accordance with U.S. GAAP. Insert a row in the

This problem has been solved!

See the answer

2) Use an electronic spreadsheet to remeasure the foreign subsidiary's FC financial statements in U.S. dollars at December 31, ~~2017~~ 2020, assuming that the U.S. dollar is the subsidiary's functional currency. Insert a row in the spreadsheet after depreciation expense and before income before taxes for the remeasurement gain (loss).

3) Prepare a report for James Benjamin, CEO of Charles Edward, summarizing the differences that will be reported in the company's ~~2017~~ 2020 consolidated financial statements because the FC, rather than the U.S. dollar, is the foreign subsidiary's functional currency. In your report, discuss the relationship between the current ratio, the debt-to-equity ratio, and profit margin calculated from the FC financial statements and from the translated U.S. dollar financial statements. Also discuss the meaning of the translated U.S. dollar amounts for inventory and for fixed assets.