

# [Foreign currency transactions](https://assignbuster.com/foreign-currency-transactions/)

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﻿Foreign Currency Transactions PART UNIT 2 Determine the eliminating entries necessary for the 20X9 consoli d financial ments Eliminating entries, august 18, 20X9;
E (1) outstanding bonds 1, 000, 000
Adam Corp share 80% \*1, 000, 000 = 800, 0000
Eliminating Adam Corp 200, 000
At times, work paper adjustments to accounting data may be needed before appropriate eliminating entries can be accomplished (Copeland, 2008). The need for adjustments generally arises because of in-transit items where only one of the affiliates has recorded the effect of an intercompany transaction.
E (2) inters accrual
Interest 100, 000
Accrued interest 12, 500
Eliminating accrued interest 87, 500
E (3) Cartwright from Adam Corp
Initial investment 25, 000
Outstanding bond245, 000
Eliminating outstanding bond5, 000
Consolidated financial statements serve to present the results of operations, statement of cash flows, and financial position of the combined entity. Separate accounting records are kept for each separate company, but not for the consolidated entity (Copeland, 2008). To determine the consolidated amounts, the amounts for the individual affiliated companies are added together. Elimination entries are made to remove the effects of inter-company transactions
PART 2: UNIT 3
Journal Entries
DateAccountDebitCredit
Dec 2 20\*8Purchases2500
Accounts payable (2500\*0. 069)2500
Dec 20 20\*8Sales1200
Accounts receivable (1200\*0. 815)1200
DateAccountDebitCredit
Dec 2 20\*8Purchases2500
Accounts payable 2512
Dec 20 20\*8Sales1200
Accounts receivable 2178
DateAccountDebitCredit
Jan 2 20\*9Invoice (Ziplt)2512. 6788
Jan 2 20\*9Receipt (Glorious)2172
Stages of Concern for Accountants
Because of the widespread involvement of companies in foreign activities, accountants must be familiar with the problems associated with accounting for those activities. The expansion of international business has been of particular concern to accountants because of developments in the worldwide monetary system. These developments, coupled with the existence of a number of acceptable methods of translating foreign financial statements and reporting gains or losses on foreign currency fluctuations have become a challenge to accountants worldwide (Campbell 2009)
Recording and reporting problems are encountered when transactions with a foreign company where investments are measured in a currency other than the country’s currency. Transactions to be settled in a foreign currency must be translated. This means they will have to be expressed in the original country’s currency before they can be aggregated with the domestic transactions of the firm (Campbell, 2009). When a foreign branch maintains its accounts and prepares its financial statements in terms of the currency of the country in which it is domiciled, the accounts must be translated from the foreign currency into original country’s currency before financial statements for the combined entity are prepared. Translation is necessary because useful financial reports cannot be prepared until all transactions and account balances are stated in a common unit of currency
In addition, the receivables or payables denominated in foreign currencies are subject to profits and losses because of changes in exchange rates. Firms make commitments or have budgeted forecasted transactions denominated in foreign currencies that are also subject to gains and losses from changes in exchange rates. Many companies resort to hedging strategies using derivatives to minimize the impact of these exchange rate changes on their financial statements. Derivative instruments can be characterized by volatile market values and the firm’s exposure to risk is usually not adequately represented by the amount reported in the books (carrying value) because of the great potential for future losses (and gains) (Copeland, 2008). Thus, the accounting for these instruments is important but not an easy one.
Reference
Copeland, L. S. (2008). Exchange Rates and International Finance. New York: Pearson Education.
Campbell, D. (2009). International taxation of low-tax Transactions: Low-tax jurisdictions volume 2. California: York Hill.