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5. Sold land on March 31, 20X5, with a book value on September 1, 20X4, of 100,000 euros for 200,000 euros. The gain on the sale was reported as other income, not operating income.
6. Declared and paid annual dividends of 143,000 FC on March 31, 20X5.

Although the British company records its transactions in euros, it has been determined that its functional currency is the FC. Various exchange rates are as follows:

	Direct Quote Euro to FC	Direct Quote FC to Dollar
September 1, 20X4	1.40	1.17
September 30, 20X4	1.42	1.18
September 1–December 31, 20X4, average	1.44	1.19
December 31, 20X4	1.46	1.21
20X5 average	1.37	1.24
1st quarter, 20X5 average	1.45	1.24
March 31, 20X5	1.43	1.25
June 1, 20X5	1.40	1.27
June 30, 20X5	1.39	1.26
September 1, 20X5	1.38	1.22
September 30, 20X5	1.35	1.21
October 31, 20X5	1.34	1.23
Last quarter, 20X5 average	1.32	1.24
December 31, 20X5	1.30	1.25

◀◀◀◀◀ **Required**

1. Prepare a trial balance for the British company as of December 31, 20X5, expressed in its functional currency (FC). All supporting schedules should be in good form.
2. Compute the translated (in dollars) value of cost of sales for the four-month period ending December 31, 20X4, and the year ended December 31, 20X5.

Problem 7-8 *(LO 3, 5)* **Translate a trial balance and prepare a consolidation worksheet. Useful comparison with Problem 7-9.** Balfour Corporation acquired 100% of Tobac Inc., a foreign corporation, for 33,000,000 FC. The acquisition, which was accounted for as a purchase, occurred on July 1, 20X5, when Tobac's equity, in FC, was as follows:

Common stock	19,000,000 FC
Paid-in capital in excess of par	8,480,000
Retained earnings	2,520,000

Any excess of cost over book value is traceable to equipment which is to be depreciated over 10 years. Balfour uses the simple equity method to account for its investment in Tobac.

On April 1, 20X7, Tobac acquired additional equipment costing 4,000,000 FC. Equipment is depreciated by the straight-line method over 10 years. No other equipment had been acquired or disposed of since 20X4. Tobac employs the LIFO inventory method. Ending inventory on December 31, 20X7, consists of the following:

Acquired in the 1st quarter of 20X4	1,000,000 FC
Acquired in the 1st quarter of 20X5	500,000
Acquired in the 1st quarter of 20X7	6,500,000

The cost of sales is traceable to goods purchased during 20X7 as follows:

Acquired uniformly over the last nine months	23,400,000 FC
Acquired in the 1st quarter	4,200,000

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Other expenses were incurred evenly over the year.

On April 1, 20X7, Tobac borrowed $1,280,000 from the parent company in order to help finance the purchase of equipment. The note is due in one year and bears interest at the rate of 8%. Principal and interest amounts are due to the parent in dollars.

Various spot rates are as follows:

	1 FC =		1 FC =
1st Quarter, 20X4 Average	$0.46	December 31, 20X6	$0.60
20X4 Average	0.49	1st Quarter, 20X7 Average	0.62
January 1, 20X5	0.51	April 1, 20X7	0.64
1st Quarter, 20X5 Average	0.53	20X7 Average	0.67
July 1, 20X5	0.55	Last nine months, 20X7 Average	0.66
December 31, 20X5	0.58	December 31, 20X7	0.65
Last six months, 20X5 Average	0.57		
20X6 Average	0.58		

The December 31, 20X7, trial balances for Tobac and Balfour are as follows:

	Balfour Corporation	Tobac, Inc.
Cash	$ 4,463,200	3,087,385 FC
Net Accounts Receivable	15,350,000	12,000,000
Inventory	16,300,000	8,000,000
Due from Tobac	1,356,800	
Investment in Tobac—See Note A	23,712,363	
Depreciable Assets	68,000,000	34,000,000
Accumulated Depreciation	(42,000,000)	(12,300,000)
Due to Balfour		(2,087,385)
Other Liabilities	(27,000,000)	(3,700,000)
Common Stock	(35,000,000)	(19,000,000)
Paid-In Capital in Excess of Par	(2,000,000)	(8,480,000)
Retained Earnings, January 1, 20X7	(4,500,000)	(7,520,000)
Sales	(98,000,000)	(40,000,000)
Cost of Sales	64,000,000	27,600,000
Depreciation Expense	8,076,800	3,300,000
Interest Expense on Balfour Loan (accrued on December 31, 20X7)—See Note B		118,154
Exchange Gain on Balfour Loan—See Note B		(30,769)
Other Expenses	10,000,000	5,012,615
Interest Income	(76,800)	
Subsidiary Income	(2,682,363)	
Total	$ 0	0 FC

Note A—Balfour's investment in Tobac consists of the following:

Initial investment (33,000,000 FC × $0.55)	$18,150,000
Last six months, 20X5 income (2,000,000 FC × $0.57)	1,140,000
20X6 income (3,000,000 FC × $0.58)	1,740,000
20X7 income	2,682,363
Balance	$23,712,363

Note B—The original loan from Balfour was 2,000,000 FC, or $1,280,000 (2,000,000 FC × $0.64). On December 31, 20X7, it would require 1,969,231 FC ($1,280,000 ÷ $0.65) to settle the loan. This represents an exchange gain of 30,769 FC (2,000,000 FC − 1,969,231 FC).

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The year-end balance due to Balfour is determined as follows:

Principal balance	1,969,231 FC
Accrued interest ($1,280,000 × 8% × 9/12 ÷ $0.65)	118,154
Balance	2,087,385 FC

The interest is accrued at year-end; therefore, interest expense should be translated at the year-end rate.

Assuming the FC is Tobac's functional currency, translate Tobac's trial balance, and prepare a consolidating worksheet. ◀◀◀◀◀ **Required**

Problem 7-9 *(LO 5, 6)* **Same facts as Problem 7-8 except involve remeasurement. Useful comparison with Problem 7-8.** Assume the same facts as Problem 7-8 with the following exceptions:

a. Tobac's functional currency is the U.S. dollar.
b. Balfour's investment in Tobac consists of the following:

Initial investment (33,000,000 FC × $0.55)	$18,150,000
Last six months, 20X5 income (including the remeasurement gain or loss)	1,610,000
20X6 income (including the remeasurement gain or loss)	1,860,000
20X7 income (excluding the remeasurement gain or loss)	3,495,363
Balance	$25,115,363

Note that the balance has not yet been adjusted for the 20X7 remeasurement gain or loss.

c. The trial balances for Tobac and Balfour are the same as in Problem 7-8 with the following exceptions:

Balfour	
Investment in Tobac	$25,115,363
Retained earnings, January 1, 20X7	(5,090,000)
Subsidiary income	(3,495,363)

Remembering that Tobac's functional currency is the U.S. dollar, translate Tobac's trial balance and prepare a consolidating worksheet. ◀◀◀◀◀ **Required**

Remember that transactions traceable to pre-July 1, 20X5, should be remeasured at the rate in effect on July 1, 20X5. This is because on July 1, 20X5, Balfour acquired its interest in Tobac and established the dollar basis of net assets existing at that time.

Problem 7-10 *(LO 3, 5)* **Translation and consolidation with excess of cost over book value.** On July 1, 20X4, Troutman International acquired a 90% interest in Korbel Manufacturing when Korbel's shareholders' equity was 20,000,000 FC including retained earnings with a balance of 5,000,000 FC. Troutman paid 21,000,000 FC for its interest, when 1 FC equaled $1.10, and the excess of cost over book value was allocated as follows:

Licensing agreement	900,000 FC
Goodwill	2,100,000

The licensing agreement expired at the end of 20X8 and was to be amortized using a straight-line pattern. At year-end 20X5, Troutman recognized that the goodwill of 2,100,000 FC was impaired by 20%, or 420,000 FC.