**ACC-405**

**Practice Problem and Solution**

A U.S. company owns an 80% interest in a company located in Great Britain. Great Britain currency is the Pound Sterling. During the year the parent company sold inventory that had cost $24,000 to the subsidiary on account for $30,000 when the exchange rate was $.79. The subsidiary still held one-half of the inventory and had not paid the parent company for the purchase at the end of the fiscal period. The unsettled account is denominated in dollars. The exchange rate at the fiscal year-end was $.763.

**Required:**

1. (1) Compute the amounts that would be reported for the inventory and accounts payable in the subsidiary’s translated balance sheet. The entity’s functional currency is the Pound Sterling.

(2) Compute the subsidiary’s transaction gain or loss on the accounts payable denominated in dollars.

1. Compute the amount of the intercompany profit to be eliminated in the consolidated statements workpaper prepared for the current year.

C. Assuming that the transaction had been denominated in 50,204 Pound Sterling rather than dollars, compute the transaction gain or loss that would be reported by the parent company.

**Answer:**

**A** 1. Inventory ($30,000/$.79) = 37,975 x 50% = 18,987 x $.763 = $14,487

Accounts Payable (30,000/.763) = 39,318 x $.763 = $30,000

2. Measurement of accounts payable

Year-end($30,000/.763) 39,318

Date of transaction ($30,000/.79) 37,975

Transaction loss 1,343

**B** Unrealized profit in ending inventory - $6,000 x 50% = $3,000

**C** Measurement of accounts receivable

Year-end 50,204 x $.763 = $38,306

Transaction date 50,204 x $.79 = 39,661

Transaction loss $1,355