

# Tutorial 5 Questions

## Chapter 24: Foreign Currency Transactions

### Comprehension questions

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1. Explain what is meant by the term 'exchange difference'.
2. Distinguish between an unrealised exchange loss and a realised exchange loss.
3. Provide an overview of the accounting requirements of AASB 121/IAS 21 in relation to foreign currency transactions and exchange differences.

### Application and analysis questions

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#### 1. Translation of purchase of inventories on credit terms

Stranded Ltd is an Australian company that purchases inventories from Hammers plc, which is an English company. The following information is relevant to a recent acquisition of inventories for £200 000 pursuant to a contract with terms including FOB shipping point.

Date	Event	Exchange rate
11 May 2023	Inventories shipped	A\$1=£0.41
22 June 2023	Inventories delivered	A\$1=£0.42
30 June 2023	End of reporting period	A\$1=£0.43
31 July 2023	Cash payment of £200 000 to Hammers plc	A\$1=£0.39

#### Required

Prepare all of the entries of Stranded Ltd that relate to the foreign currency purchase of inventories in accordance with AASB 121/IAS 21. How would your answer change if the inventories acquired had a net realisable value of £170 000 at 30 June 2023?

#### 2. Forward contract with fair value hedging

On 1 March 2024, Frank Ltd, an Australian company that has A\$ as its functional currency, enters into a firm commitment with a foreign supplier to buy an equipment for US\$500 000. The ownership of the equipment and the consideration for the purchase are transferred on 31 August 2024. On the same day as entering the firm commitment, Frank Ltd enters into a forward exchange contract to buy US\$500 000 on 31 August 2024. Assume a discount rate of 0% for fair value calculations. Relevant exchange rates are as follows.

	Spot rate	Forward rate (for 31/8/2024)
1 March 2024	US\$1=A\$1.36	US\$1=A\$1.39
30 June 2024	US\$1=A\$1.37	US\$1=A\$1.41
31 August 2024	US\$1=A\$1.38	US\$1=A\$1.38

### Required

Prepare the necessary entries for Frank Ltd up until and including 31 August 2024 in accordance with AASB 121/IAS 21.

### 3. Forward contract with cash flow hedging

On 1 January 2023, Toby Ltd, an Australian company that has A\$ as its functional currency, enters into a forward exchange contract to sell €300 000 on 31 August 2023. The forward contract is designated as a hedge for a sales transaction of €300 000 that Toby Ltd expects to have with a German customer on 31 August 2023. The sales transaction is highly probable based on past experience. Assume a discount rate of 0% for fair value calculations. Relevant exchange rates are as follows.

	Spot rate	Forward rate (for 31/8/2023)
1 January 2023	€1=A\$1.32	€1=A\$1.32
30 June 2023	€1=A\$1.30	€1=A\$1.35
31 August 2023	€1=A\$1.36	€1=A\$1.36

### Required

Prepare the necessary entries for Toby Ltd up until and including 31 August 2023 in accordance with AASB 121/IAS 21.

Assume the sale transaction with the German customer takes place as anticipated on 31 August 2023.