



FINAL EXAM

Course # 171034 Accounting For Foreign Currency

based on the electronic .pdf file(s):

Accounting For Foreign Currency

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4 CPE Credit Hours
Accounting & Auditing

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*This exam sheet is made available for your convenience in answering questions while offline.
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Chapter 0 - Course Material

1. The potential for an increase or decrease in the firm's financial statements items caused by a change in exchange rates is called
 - Transaction Exposure.
 - Operating Exposure.
 - Translation Exposure.
 - Strategic Exposure.
2. The currency in which the parent company prepares its financial statements is the
 - Functional currency.
 - Reporting currency.
 - Historical currency.
 - Base currency.
3. The currency of the country where the foreign company is operating is the
 - Base currency.
 - Parent currency.
 - Local currency.
 - Third country currency.
4. The currency of the primary economic environment in which the firm operates is the
 - Functional currency.
 - Reporting currency.
 - Historical currency.
 - Base currency.
5. A change in the functional currency is accounted for
 - Retroactively
 - As a change in estimate
 - Net of taxes
 - All of the above
6. Previously issued financial statements
 - Should be restated for a change in functional currency
 - Are not restated for a change in the functional currency
 - Should be retroactively revised
 - None of the above
7. Gains or losses on foreign exchange contracts typically are recognized

- On the balance sheet in the year the exchange rate changes
- In current earnings in the year the exchange rate changes
- Immediately
- All of the above

8. If a company's books are not maintained in the functional currency, remeasurement into the functional currency is

- Required
- Recommended
- Not recommended
- Not permitted by GAAP

9. The translation methodology which assumes that the only assets that should be translated at the historical rate are those carried at past exchange prices is the

- Current-noncurrent method.
- Monetary-nonmonetary method.
- Temporal method.
- Current rate method.

10. If a foreign entity's functional currency is the US dollar and the parent's currency is also the US dollar,

- Translation adjustment is mandatory
- No translation adjustment is required
- Translation adjustment is recommended
- None of the above

11. The objective(s) of translation include

- Preserving the operating results and relationships measured in the foreign currency
- Providing information in consolidated financial statements about the financial performance of each foreign consolidated entity
- Providing information on the anticipated effects of changes in exchange rates on cash flow and equity
- All of the above

12. When the foreign currency is the functional currency, capital accounts are translated using the

- Current exchange rate at the balance sheet date
- Historical exchange rate in effect when the entity's stock was issued
- Average exchange rate for period being reported
- Weighted average exchange rate for the period being reported

13. When the foreign currency is the functional currency, assets and liabilities are translated at the _____ of the foreign entity

- Current exchange rate at the balance sheet date
- Weighted average exchange rate for reporting period
- Historical exchange rate
- Average exchange rate for the reporting period

14. In the statement of cash flows, cash flows are translated based on the

- Exchange rate in existence at the time of the cash flows
- Historical exchange rate in effect at the beginning of the period
- Exchange rate in effect at year-end
- None of the above

15. Usually in the absence of high inflation, income statement items are translated at the

- Exchange rate in effect at the balance sheet date
- Historical exchange rate
- Exchange rate at the dates those items are recognized
- None of the above

16. If a company's functional currency is a foreign currency, adjustments occurring from translating the company's financial statements into the reporting currency are

- Unrealized
- Realized
- Presented as a liability on the balance sheet
- Presented as a deferred asset on the balance sheet

17. The translation method in which all assets and liabilities are translated at current exchange rates is known as the

- Current-noncurrent method.
- Monetary-nonmonetary method.
- Temporal method.
- Current method.

18. A highly inflationary environment is one with a cumulative inflation rate of

- 100% or more over a three-year period
- 50% per year over a five-year period
- 25% per year over a four-year period
- None of the above

19. The functional currency of Nash, Inc.'s subsidiary is the euro. Nash borrowed euros as a partial hedge of its investment in the subsidiary. In preparing consolidated financial statements, Nash's translation loss on its investment in the subsidiary exceeded its transaction gain on the borrowing. How should the effects of the loss and gain be reported in Nash's consolidated financial statements?

- The translation loss minus the transaction gain is reported in other comprehensive income.
- The translation loss minus the transaction gain is reported in income from continuing operations.
- The translation loss is reported in other comprehensive income, and the transaction gain is reported in income from continuing operations.
- The translation loss is reported in income from continuing operations, and the transaction gain is reported in other comprehensive income.

20. A foreign entity may be excluded from consolidated or combined financial statements if

- Serious political problems exist in the foreign country
- Exchange restrictions are extremely restrictive
- All of the above
- None of the above

21. The following is NOT required to be footnoted.

- Profits earned from domestic earnings.
- Foreign currency transaction gains or losses, including that associated with forward exchange contracts.
- The impact on unsettled balances regarding foreign currency transactions.
- Cumulative translation adjustments reported in stockholders' equity.

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