

# Multinational Accounting: Issues In Financial Reporting And Translation of Foreign Entity Statements

حكي عن معاملات تجارية بين شركتين  
كل شركة فيهما عملة معينة وأحد الشركات يقرض  
عملته بالشركة الثانية [عملية البيع أو استثمار الكاش] يعني في  
Risk على أحد الشركتين بالتالي يكون عند

Foreign Currency Transaction → يفتح عنه  
Gain or Loss ←

CH.12 → Consolidation مزرع حكي عن

Parent company Subsidiary Company → عملتها مختلفة عن

بما أني عندي Consolidation Financial Statement بلزم  
أحول عملة Adjusted Trial Balance التي جاي عن الشركة  
التابعة لعملة الشركة الأم [بمربطها أجمع نفا مع برتقال]



(2)

Concepts :

← مراجع

\* Local currency:  
(L.C)

→ العملة المحلية

عملة الدولة الموجودة فيها  
الشركة

\* Functional currency:  
(F.C)

→ العملة الوظيفية

تعتبر غالبية المعاملات المالية  
في الشركة

\* Reporting currency:  
(R.C)

→ عملة التقارير

عملة الشركة الأم [العملة التي  
تُفَرِّغها الشركة الأم قوائمها المالية]

→ في هذا السبتر نفرض أنها \$ و £

→ In CH. 11 :  $L.C = F.C = R.C$

∴ No restatement method Needed

→ In CH. 12 :  $L.C \neq F.C \neq R.C$

The Types of Exchange Rates

① Current Exchange Rate (CER) حـر الصرف يوم تحضير القوائم المالية

② Average Exchange Rate (AER)  $\frac{Bego + Endo}{2}$

③ Historical Exchange Rate (HER)

→ حـر الصرف يوم حدوث المعاملة أو يوم حدوث Bus. combination  
أيها حدث لا حقاً (أيها أجدر)

\* Assume cash dividends @ Nov. 1 → Transaction date →  $ER = 1.40$

Bus. combination @ Jan. 1 →  $ER = 1.33$

نكتا، حـر صرف التاريخ الأحدث [Transaction Date] ← \$ 1.40



(3)

من شرح ده ميرايو شماس :

Translation method :  
↳ Current Rate method

$$L.C = F.C \neq R.C$$
$$peso = peso \neq U.S \$$$

examples

يتم معالجة الحسابات من Adj. Trial Balance

- B.S Account
- ① All Assets and Liabilities are translated using [CER]
  - ② All Stockholders Equity Accounts are translated using [HER]
  - ③ All ~~Revenues~~ Revenues & Expenses are translated using [AER]
- I.O.S

\* لأن مع الصرف المستقيم في ترجمة الحسابات مختلف  
كل توازن الحسابات في Dr. & Cr. وينتج Gains or losses  
ولا يتم تضمينها في Net Income وتكون جزء من

أب أن Closing Entry يكون في  
Other comprehensive Income  
Acc. other comprehensive Income

\* Dr. > Cr. → translation Gain في جانب Cr.

Dr. < Cr. → translation loss في جانب Dr.



(4)

Remeasurment method:

↳ Temporal method [monetary - Non-monetary method]

$$\textcircled{1} \quad \text{L.C} \neq \text{F.O.C} = \text{R.C}$$
$$\text{peso} \neq \text{U.S \$} = \text{U.S \$}$$

[Remeasurment]

OR

$$\textcircled{2} \quad \text{L.C} \neq \text{F.O.C} \neq \text{R.C}$$
$$\text{peso} \neq \text{Real} \neq \text{U.S \$}$$

[Remeasurment] [Translation]

Remeasurment في Adj. Trial Balance من

- Balance Sheet Account**
- ① All monetary Assets [Cash & Receivables] are remeasured using [CER].
  - ② All monetary liabilities are remeasured using [CER].
  - ③ All Non-monetary Assets & liabilities are remeasured using [HER].
  - ④ All Stockholders Equity are remeasured using [HER].
- Income statement account**
- ⑤ Revenues & Expenses are Remeasured using [AER] except For Revenues & Expenses that are related to Non-monetary Assets & Liabilities.
  - ⑥ Revenues & Expenses related to Non-monetary Assets & liabilities are remeasured using [HER].



5

Non-monetary Assets like:

Inventory  $\rightarrow$  Cost of Good Sold [Expense]  
• [HER] ←

Fixed Asset  $\rightarrow$  Dep. Expense

• [HER] ←

الفردية Dr. & Cr.  $\rightarrow$  Gain or loss  $\rightarrow$  Closing Entry  $\rightarrow$  Net Income  $\rightarrow$  Retained Earning  $\rightarrow$  Income Summary

\*

Dr. > Cr.  $\rightarrow$  Remeasurment Gain

Cr.  $\rightarrow$  جانب

Dr. < Cr.  $\rightarrow$  Remeasurment loss

Dr.  $\rightarrow$  جانب

\* 4-major Items in Other Comprehensive Income :

① Foreign currency translation Adjustment

$\rightarrow$  Translation Gains  
 $\rightarrow$  Translation losses

② Unrealize holding Gains or losses on Available for sale securities.



⑥

③ Revaluation of cash flow hedges.

↳ Revaluation Gain.  
↳ Revaluation Loss.

④ Adjustment on minimum pension Liability Item

Acc. other comprehensive income → [4 ← 1]

Example page 623

\* Foreign currency units  
لغير حسابات كاش وبنوك  
أجنبية

$$L.C = F.C \neq R.C$$

$$€ = € \neq U.S \$$$

translation

Date	ER
Jan. 1, 20x1	\$ 1.2
Oct. 1, 20x1	1.36
Dec. 1, 20x1	1.4
Average 20x1	1.3 → $\frac{1.2 + 1.4}{2}$

\* الحسابات من USD

Parent Books

① @ Date of Bus. combination

Dr. Investment in sub. 63,000

Cr. Cash 63,000

② Optional Elimination Entry [HER]

Dr. Acc. Dep. → [€ 5000 X 1.2]

Cr. B & E -s

6000

6000



### ③ Basic Reclassification & Elimination Entry

	[HER]	
Dr. C.S - S	$[\text{€ } 40,000 \times \$ 1.2]$	48,000
R.E - S	$[\text{€ } 10,000 \times \$ 1.2]$	12,000
Patent	$[\$ 3,000 \text{ above B.V.}]$	3,000
		63,000
Cr. Investment in sub-P		

### Subsidiary Books

① when sales is made  $\rightarrow \$ 4,200 / 1.2 = \text{€ } 3,500$

Dr. Foreign currency unit (\$)	3,500
Cr. Sales	3,500

بالنسبة للشركة التابعة \$ هي العملة الأجنبية  
و هي سجل باليورو €

② Dec. 31  $\rightarrow$  Revaluation  $\$ 4,200 / 1.4 = \text{€ } 3,000$

Dr. Foreign currency transaction loss

Cr. Foreign currency unit (\$)

FCU	\$
3,500	
500	500 $\rightarrow$ loss
3,000	

~~Trans. for Jan. 1. 20X1~~

④ Date of Bus. combination  $\rightarrow$  Jan. 1. 20X1

لو بيدي أوفر Consolidated Balance sheet في هاي اكلالة بلزم  
أعمل Translation يعني باح. جميع اكلالات بأداة CER لأن جميع  
Assets & liabilities كورس باستخدام CER و حسابات SHE باح. باستخدام  
HER اللي يكون نفس CER يوم البرنس كوميبيشن [كونه أحدث] وفي هاي  
اكلالة بقدر Dr. = Cr. لأنني استعملت نفس سعر الصرف ازا فند زخم ولا فاة



(8)

After one year : Dec. 31. 20x1

Items

Cash

FCU,

Receivables

Inventory

Plant & Equipment

ASSETS

BALANCE €

X  
Current Exchange Rate [1.4]

BALANCE \$

COGS

Operating Expenses

F.C transaction loss

~~Dividend paid~~

Expenses

losses

BALANCE €

X  
Average Exchange Rate

BALANCE \$

Dividends paid

BALANCE(€) x HER = BAL.(\$)  
لـ يوم الاعلان

Total Debits

\$168,200

contra asset

Acc. Dep.

BALANCE €

liabilities

A/P

B/P

X

Current Exchange Rate

Balanse \$

Total

\$157,200

BAL.€ x HER = BAL \$  
Bns. comb. لـ يوم الاعلان

BAL.€ x AER = BAL \$

Revenue ← Sales

Translation Gain [168,200 - 157,200] 11,000

Total Credit

\$168,200



Parent Book [Rev. - Exp] <sup>⑨</sup> → AER [AER]  
 after one year → Net Income = £12,500 × \$1.3 = \$16,250

Dr. Investment in Sub. 16,250  
 Cr. Income from sub. 16,250

[SHE Account] [HER] Trial Balance  
 Dividend ⇒ £6,250 × 1.36 = \$8,500 → Balance  
 Translation class will

Dr. Cash 8,500  
 Cr. Investment in Sub. 8,500

Translation Gain Entry:

Dr. Investment in Sub. 11,000  
 Cr. Other Comprehensive Income - translation Gain 11,000

لو كان عندى Translation loss  
 translation loss & translation Gain

To Calculate the differential Amortization

في الامتحان مطلوب منك ان يكون في الاعادة

الشركة دفعت \$3000 في B.V. على ان

[UL = 5 years] patent كان في

\$3000 = £2500 / 5 → £500 differential amortization  
 AER translation [Exp. غير]



(10)

$$\begin{array}{c} \text{AER} \\ \downarrow \\ \text{€ } 500 \times \$1.30 = \$650 \end{array}$$

Dr. Income From Sub. 650

Cr. Investment in sub. 650

$$\text{Remaining patent } (\$) \rightarrow 3000 - 650 = \underline{\$2,350}$$

$$\text{Remaining patent } (\text{€}) \rightarrow 2500 - 500 = \underline{\text{€}2,000}$$

CER translation B.O.S. لكن يوم خسر patent

$$\begin{array}{c} \text{[CER]} \\ \therefore \text{€ } 2000 \times 1.4 = \$2,800 \end{array}$$

~~2,350~~

translation value > B.O. → diff. translation gain  
translation value < B.O. → diff. translation loss

$$\therefore \$2,800 - \$2,350 = \$450 \rightarrow \text{Gain}$$

Dr. Investment in Sub. 450

Cr. OCI - Differential translation 450

[في حالة loss في القيد]

\* هذا الكمية بـ Differential و بـ B.O. فقط لا يقبل دفعت مبلغ الاعلى من B.O.

~~Differential~~



## Investment in Sub

## Income Statement

Income from Sub.

$I_0$  : Initial Investment  
 $NI$  : Net Income  
 $D.T$  : Differential translation  
 $D.A$  : Differential Amortization

## Optional Elimination Entr

Dr. Acc. Dep. (5000 x 1.20)

6000

6000

Cr. B & E

Basic & Reclassification Elimination Entry

Dr. C. S. S. [HER]

A. E-5 [HER]

Income from sub. - P

loss او  $OC1 \cdot FCT$  Gain - P

Locl. D.T - P

Amortization Exp. - s  
patent - s

**B.Cr.** Dividend Declared - S  
Inv. In Sub.

48,000

~~84000~~

12,000

15,600 [T-account]

11,000

450

650

2,350

\$500

81,55 [T-account]



~~Exhibit~~

## Closing Entries

① Dr. Income from Sub.  
Cr. R.E

15,600

15,600

② Dr. OCI, FC translation Gain  
OCI, Diff. translation

11,000

450

11,450

Cr. Acc. OCI

Example Page 636

L.C  $\neq$  F.C = R.C  
€  $\neq$  \$ = \$  
| Remeasurement |

Date	%	ER
Jan. 1, 2001		\$1.20
Oct. 1, 2011		1.36
Dec. 31, 2011		1.40
Average		1.30 $\rightarrow \frac{1.2 + 1.4}{2}$

Ending Inventory was acquired when DER ~~\$1.38~~  $[\$1.38 = €1]$



Cash  
FCUs  
Receivables ] Monetary Assets  
CER

Inventory ] Non monetary Asset [HER]

Plant & Equipment ] Non monetary Asset [HER]

Cost of Good Sold ] Non monetary <sup>مصاريف متعلقة بالمول</sup>  
Operating Expenses ] \* بشرطها بحرين

FCT-loss ] [AER]

monetary <sup>مرتبط بالمول</sup> ~~is~~ <sup>مربط بالمول</sup>

Div. paid ] [HER]

Total Debit \$156,700

Acc. Dep. ] Non monetary contra-Asset  
[HER]

A/P ] Monetary liability  
B/P ] [CER]

C.O.S ] SHF Accounts  
R.O.E ] [HER]

Sales ] Monetary asset <sup>مرتبط مع</sup>  
[AER]

Total \$155,700  
1,000

Remeasurment Gain

Total Credit \$156,700



(14)

\* Cost of Good Sold

$$\begin{array}{r} \text{Beg. Inventory [HER]} \\ + \text{Purchases [AER]} \\ \hline \text{Cost of Good Available for sale} \\ - \text{(End. Inventory) [HER]} \\ \hline \text{Cost of Good Sold} \end{array}$$

بما أن العملية يتم على عدة مراحل، نحن عند  
أكرمنا ER و HER يكون مختلفاً بالذات على تواريخ حدوث

Purchases  $\left\{ \begin{array}{l} \text{بدفع كاش} \\ \text{A/P} \end{array} \right\} \text{monetary}$

\* Operating Expense

AER  $\leftarrow$  monetary مرتبطة بأصول

HER  $\leftarrow$  Non monetary

Cash Exp. [AER]

Dep. Exp. [HER]

Amortization exp. [HER]



## Entry In parent Books:

Dr. Investment In Sub.	1000
Cr. Remeasurment Gain	1000

## Closing Entry:

Dr. Remeasurment Gain	1000
Cr. R.E	1000

لو اكلالة فامرة يكون القيد بالعكس ويكون اسعر  
Remeasurment loss.

## Notes:

\* Marketable Securities → Financial Assets

Monetary Asset ← في طريقة Reamesurment بحالها و كائنا

\* Monetary liabilities تكون امثال

Unearned service revenue ← Non monetary liability على

Cash لا فمارح اقدم خدمة  
او اقدم خدمة

توفد سعر الصرف يوم B.C  
او حدوث المعاملة ايها الحدث



P12-21 Page: 665-666

Parent acquired all of Subsidiary CoS @ B.O.U On Jan. 1. 2004

Noncontrolling Interest و Difference Differential ←

$$L.O.C = F.O.C \neq R.O.C$$

$$Real = Real \neq U.S. \$$$

translation

\* نقطة الانطلاق في  
أحد F.O.C  
translation  
أقرر أحسن  
Remeasurment

Inventory بالوالت B.S. ≠ \*

في بداية السنة ونهايتها كل 95,000 (Raal) بحسن

COGS = Cost of Good purchased أن

① End. Inventory → <sup>بداية</sup> <sub>نهاية</sub> FIFO : First in First out  
← يعني من طرف آخر عملية → هو الذي يحسن [HER]

② Insurance premium for 2-year was paid on October. 1. 2003  
← قبل Bus. combination بحسن أن HER في الكافة  
يكون حسب تاريخ Bus. combination (لأنه أحدث)

③ Plant & Equipment were acquire as follow:

Date	Cost per real		أحدث
Jan. 1. 2001	200,000	] Before Bus. Combination	
July. 10. 2002	50,000		
April. 7. 2004	100,000	] After Bus. Combination	

أحدث



(17)

- ④ Plant & Equipment are depreciated using Straight-line method  
 U.L = 10 year & No residual value. Full months dep. is taken in the month of acquisition.

يعني لما احب الاستعلاء للشركة في April.7 بحسب

اي استعلاء الشركة كامل [لو شريته باخر يوم في الشهر ← Full month]

- ⑤ the intangible assets are patent acquired on

July.10.2002

Bus. Combination قبل

@ Cost Real 60,000 and U.L = 5 years.

- ⑥ C.S was Issued on Jan.1.2001 B.C قبل

- ⑦ Dividends 
 → Real 10,000 on April.9.2004  
 → Real 15,000 on October.9.2004
  B.C بعد

Date

Exchange Rate (\$)

Jan.1.2004  
 April.7.2004  
 Oct.9.2004  
 Dec.31.2004  
 2004 Average

~~0.30~~ 0.30

0.28

0.23

0.20 → CER

0.25

← ER قبل B.C ليس له داعي

Required

Prepare a schedule translating the Dec.31.2004, trial Balance of Sub. From real to \$ assuming the real is th F.C.



# Trial Balance Translation December 31, 2004

	Reals	Exchange Rate	U.S. \$
Cash	Real 57,700	0.2 CER	\$ 11,540
A/R	82,000	0.2 CER	16,400
Inventory	95,000	0.2 CER	19,000
Prepaid Insurance	2,400	0.2 CER	480
Plant & Equipment	350,000	0.2 CER	70,000
Intangible Assets	30,000	0.2 CER	6,000
COGS	230,000	0.25 AER	57,500
Insurance expenses	3,200	0.25 AER	800
Dep. Exp.	32,500	0.25 AER	8,125
Amortization exp.	12,000	0.25 AER	3,000
Operating exp.	152,300	0.25 AER	38,075
Dividends paid	25,000	0.25 AER (a)	6,250
Total Debit	Real 1,072,100		\$ 237,170
Acc. dep.	100,000	0.2 CER	20,000
A/P	24,000	0.2 CER	4,800
Income tax Payable	27,000	0.2 CER	5,400
Interest Payable	1,100	0.2 CER	220
N/P	20,000	0.2 CER	4,000
B/P	120,000	0.2 CER	24,000
C.S. → B.C. أحدت	80,000	0.3 HER	24,000
APIC → B.C. أسهم	150,000	0.3 HER	45,000
R.E. → B.C. ربح المحتفظ به	50,000	0.3 HER	15,000
Total Credit Sales	500,000	0.25 AER	125,000
Total Credit	Real 1,072,100		\$ 267,420



(19)

Total Dr. &lt; Total Credit

237,170 < 267,420 → 30,250 loss  
 ← في جانب Dr.

Dr. Translation loss 30,250  
 Cr. Investment in sub. 30,250

(9) Dividend

→ على مرفأ

Div @ April 7 [HER = 0.28] → 10,000 × 0.28 = \$2,800

Div @ October 9 [HER = 0.23] → 15,000 × 0.23 = \$3,450

Total

Real 25,000

\$6,250

Closing Entry: AOCI Gain لو كانت Gain

Dr. Acc. other comprehensive loss 30,250  
 ↓

Cr. Translation loss 30,250

Assume that the \$ is F.O.C

L.O.C ≠ F.O.C = R.C

Real ≠ \$ = \$

Remeasurement

← على طرق المعايير السابقة



\*(M) = Monetary  
 (NM) = Non-Monetary

(20)  
 Trial Balance Remeasurment  
 December 31, 2004

	Real	ER	US \$
Cash <b>monetary</b>		0.20 CER	11,1540 <del>16,400</del>
A/R <b>M</b>	*	0.20 CER	16,400 <del>23,750</del>
Inventory <b>NM</b> → <sup>ER transaction</sup> <sub>B.C</sub>	ق. ٢٠٠٤	0.25 HER	23,750 <del>720</del>
Prepaid Insurance <b>NM</b> → <sup>حسبت قبل B.C اذا باخذ</sup> <sub>حرف B.C</sub>	٢٠٠٤	0.30 HER	720 <del>103,100</del>
Plant & Equipment → <sup>حسبت على مراحل</sup> <sub>في أكثر من حرف</sub>	٢٠٠٤	(a)	103,100 <del>900</del>
Intangible Asset <b>NM</b> → <sup>النشر قبل B.C</sup> <sub>حاصل على مراحل</sub>	٢٠٠٤	0.30 HER	900 <del>62,250</del>
COGS [ <b>NM</b> ] → <sup>ب.ت. ب.م</sup>		(b)	62,250 <del>900</del>
Insurance exp. [ <b>NM</b> ] → <sup>ب.ت. ب.م</sup> <sub>B.C قبل</sub>		0.30 HER	900 <del>9,600</del>
Dep. exp. [ <b>NM</b> ] → <sup>ب.ت. ب.م</sup> <sub>P&amp;E</sub>		(c)	9,600 <del>3,600</del>
Amortization exp. [ <b>NM</b> ] → <sup>ب.ت. ب.م</sup> <sub>Intangible Asset</sub>		0.30 HER	3,600 <del>38,075</del>
Operating exp → <sup>حسبت ب.م</sup> <sub>Dep. Amortization Insurance</sub>		0.25 AER	38,075 <del>6,250</del>
Div. exp. paid → <sup>ب.م</sup> <sub>حاصل على مراحل</sub>		(d)	6,250
Total Dr	Real 1,072,100		\$ 285,145
A/P <b>M</b>		0.20 CER	\$ 4,800
Acc. dep. → <sup>حاصل على مراحل</sup> <sub>P&amp;E و Dep</sub>		(e)	29,850
Income tax payable <b>M</b>		0.20 CER	5,400
Interest payable <b>M</b>		0.20 CER	220
N/P <b>M</b>		0.20 CER	4,000
B/P <b>M</b>		0.20 CER	24,000
C.S		0.30 HER	24,000
APIC		0.30 HER	45,000
R.E		0.30 HER	15,000
Sale → <sup>مربوطة ب.م</sup> <sub>Cash A/R</sub>		0.25 AER	125,000
Total Cr	Real 1,072,100		\$ 277,270



Total Dr > Total Cr

7,875

### Closing Entry:

Dr. Remeasurement Gain 7,875

Cr. Income Summary 7,875

~~Storing Fatys~~

## Dr. Income Summary

Cr. R.E

7875

7,875

(a) Plant & Equipment

HER @ B.C

Before  
B.C [ Jan. 1, 2001  
July, 10, 2002  
April, 7, 2004

209,000  
50,000 ] x 0.3

HER @ 7 April

100,000 ] x 0.28

$= \$75,000$   
 $28,000$

Total  
103,000

Jan. 1, 2001 → 4 years عمره  
July. 10, 2002 → 205 year عمره  
April. 7, 2004 → 9 month عمره

(b) Cost of Good sold

Beg. Inv.	95,000
+ purchases	+ 230,000
<hr/>	<hr/>
Good Available	325,000
- (End. Inv.)	(95,000)
	<hr/>
	230,000

ER  
0.3 HER  
0.25 AER

0.25 HER  
transaction

B.C

$$\begin{array}{r} 28,500 \\ + 57,500 \\ \hline 86,000 \\ (23,750) \\ \hline \$ 62,250 \text{ (COGS)} \end{array}$$



# (C) Depreciation Expens

Before B.C  $\rightarrow \frac{250,000}{(U.L) 10} = \text{Real } 25,000 \times \text{HER @ BC } 0.3 = \$7,500$

April. 7. 2004  $\rightarrow \frac{100,000}{10} \times \frac{9}{12} = 7,500 \times 0.28 = \$2,100$

\$9,600  
total

HER @ transaction Date

## (d) Dividends paid.

April. 7. 2004 Real 10,000  $\times \text{HER @ transaction Date } 0.28 = \$2,800$

October. 9. 2004 Real 15,000  $\times 0.23 = \$3,450$

\$6,250

## (E) Accumulated Depreciation

	Real	HER
Jan. 1, 2001 $\rightarrow$ 4 سنوات $\rightarrow \frac{200,000}{10} \times 4 = 80,000$	$\times 0.30$ [B.C Rate]	
July. 10. 2002 $\rightarrow$ 2.5 سنة $\rightarrow \frac{50,000}{10} \times 2.5 = 12,500$	$\times 0.30$ [B.C Rate]	
April. 7. 2004 $\rightarrow$ 9 اشهر $\rightarrow \frac{100,000}{10} \times \frac{9}{12} = 7,500$	$\times 0.28$ [transaction Rate]	

$80,000 \times 0.30 = \$24,000$

$12,500 \times 0.30 = \$3,750$

$7,500 \times 0.28 = \$2,100$

\$29,850

✓ RUBA  
MTOOR