Exercises

4. Important financial data for the British subsidiary of Callison Company (U.S.) for the 2009 fiscal year is shown below

British pound sterling

(Millions)

1. Net Sales 3,089
2. Gross Profit 2,074
3. Income before Taxes 1,006
4. Net Income 584

Assume the following average exchange rates for the year (U.S. dollars per British pound sterling):

1. $1.69 2. $1.80 3. $1.58 4. $1.46

Using each exchange rate, make a table converting a), b), c), and d) into U.S. dollars.

Determine which exchange rate produces the most favorable results in U.S. dollars.

5. Leeds Corporation (U.S.) purchased equipment worth 2 million Euros from Crivello (Italy) at the beginning of the year. The transaction was denominated in Euros. The exchange rate at the time was US$1.23=1 Euro. However, due to a stronger economy, the Euro had strengthened against the U.S. dollar resulting in a exchange rate of US$1.31=1 Euro at year end.

a) Determine the transaction gain/loss that Leeds Corporation will report in its year-end income statement.

b) Determine the transaction gain/loss Crivello will report in its year-end income statement.