

**Derivatives: Accounting for Forward Contracts**

Candra Christensen Cuisine operates a chain of fine seafood restaurants. The company makes very detailed long-term plans. On October 1, 2013, Candra Christensen determined that it would need to purchase 800,000 pounds of New England lobster

on January 1, 2015. Because of the fluctuations in the price of New England lobster, on October 1 the company negotiated a special forward contract with Lisa Investment Bank for Candra Christensen to purchase 800,000 pounds of New England lobster on January 1, 2015, at a price of \$9,600,000. The price of New England lobster was \$12 per pound on October 1. Lisa Investment Bank has a staff of financial analysts who specialize in forecasting lobster prices. These analysts are predicting a drop in worldwide lobster prices between October 1, 2013, and January 1, 2015.

On December 31, 2013, the price of a pound of New England lobster is \$15. On December 31, 2014, the price of a pound of New England lobster is \$9. The appropriate discount rate throughout this period is 10%.

**Instructions:** Make all journal entries necessary on Candra Christensen's books in 2013, 2014, and 2015 to record the forward contract and the purchase of the lobster. For purposes of estimating future settlement payments under the forward contract, assume that the current price of lobster is the best forecast of the future price.

**Problem 19-42**

L05

**Derivatives: Accounting for Futures Contracts**

On January 1, 2013, Jessica Marie Company sold equipment to Gwang Ju Company for 30,000,000 Korean won, with payment to be received in two years on January 1, 2015. The exchange rate on January 1, 2013, is 800 won = \$1. On the same date, Jessica Marie enters into a futures contract and agrees to sell 30,000,000 won on January 1, 2015, at the rate of 800 won = \$1.

On December 31, 2013, the exchange rate is 790 won = \$1. On December 31, 2014, the exchange rate is 830 won = \$1. The appropriate discount rate throughout this period is 10%.

**Instructions:** Make all journal entries necessary on Jessica Marie's books in 2013, 2014, and 2015 to record this sale, the futures contract, and the collection of the receivable. For purposes of estimating future settlement payments under the futures contract, assume that the current exchange rate is the best forecast of the future exchange rate. (Note: Don't forget to record the receivable at its present value.)

- Find Disney's Quarterly Financial Summary. Do you detect any seasonal pattern in Disney's revenues? Explain.

**Case 19-61**

**Deciphering Financial Statements (Interim Reporting: Toys "R" Us)**

Toys "R" Us is the biggest toy store chain in the United States, with significant operations outside the United States as well. The following quarterly financial data were taken from the 2009 annual report of Toys "R" Us.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009 Net Sales .....	\$2,477	\$2,567	\$2,667	\$5,857
2009 Gross Margin .....	890	951	950	1,987
2009 Net Earnings/(Loss) .....	(35)	27	(67)	387
2008 Net Sales .....	2,719	2,771	2,773	5,461
2008 Gross Margin .....	977	1,014	960	1,797
2008 Net Earnings/(Loss) .....	(36)	13	(104)	345

- Does Toys "R" Us have any seasonal pattern in its sales?
- Compute gross profit (or margin) percentage (Gross margin/Sales) for each quarter for fiscal years 2008 and 2009. Is the gross profit percentage in the fourth quarter substantially different from other quarters?
- Assume that first-quarter sales for fiscal 2010 are \$2,700 million. What is your prediction of fourth-quarter sales?

**Case 19-62**

**Deciphering Financial Statements (Derivatives: IBM)**

In Note L to its 2009 financial statements, IBM includes disclosure about its derivatives as follows: