LAGOS CITY POLYTECHNIC, IKEJA
DEPARTMENT OF ACCOUNTANCY

ACC 321

NOTES

Transactions involving overseas suppliers and customers

These may be dominated in overseas currencies i.e. foreign currencies. They must be expressed in the entity's functional currency for financial reporting purposes.

Illustration

For the financial year ended June 30, 2012, Anlogba-Anago Ltd had the following transactions with overseas suppliers and customers:

October 12, 2011 received a consignment of raw materials from Fox Inc., Texas valued $20,000

October 26, 2013 invoiced goods to Fox Inc, Texas valued at $111,550

October 26, 2013 received a consignment of raw materials from Lay Ltd., U.K

valued 40,000 Pound Sterling

October 30, 2013 paid Lay Ltd., U.K the sum of 20,000 Pound Sterling

Show how these transactions will be reflected in the financial statement of the company at 31 October 31, 2013 if exchange rates are assumed as follows:

	Pound St	U.S Dollar
September 30	264	155
October 15	265	256.4
October 30	265.3	256.6

Key to the solution: the transactions must be expressed in Naira which is the functional currency of Anlogba-Anago ltd.

Transactions involving overseas subsidiaries

This relates to an entity with foreign branches or associates as well which maintain accounting records in their local currencies. These must be translated into a single currency at the end of the reporting period. Translation is to the functional currency of the holding company.

Illustration 2

For the financial year ended June 30, 2012, Anlogba-Anago Ltd had the following transactions with its overseas subsidiaries:

October 12, 2011 received a consignment of raw materials from Fox Inc., Texas valued $20,000

October 12, 2011 Fox Inc., Texas invoiced goods totaling $620,000 to local customers

October 26, 2013 invoiced goods to Fox Inc, Texas valued at $111,550

October 26, 2013 received a consignment of raw materials from Lay Ltd., U.K

valued 40,000 Pound Sterling

October 30, 2013 paid Lay Ltd., U.K the sum of 20,000 Pound Sterling(UKP)

October 31, 2013 Lay Ltd., sold products worth UKP 100,000 to various customers

Show how these transactions will be reflected in the financial statement of the group at 31 October 31, 2013 if exchange rates are assumed as follows:

	Pound St	U.S Dollar
September 30	264	155
October 15	265	256.4
October 30	265.3	256.6

Key to the solution: the transactions must be reflected in the financial statements of the respective companies. When consolidating the statements, the financial statements of the subsidiaries will be translated to Naira which is the functional currency of Anlogba-Anago Ltd.

REVISION QUESTIONS

1. In the preparation of financial statements for Otis Ltd and JKC Plc, two of your clients as a Financial Consultant, explain the relevance of IFRSs in the performance of your duties.

2. List the main sections of a typical Cash Flow Statement and compare it with a standard Value added Statement.

3. (i) What is a ratio?
   (ii) Explain solvency ratios in financial accounting.

4. State two items to be included in an abridged annual report.

5. (a) What is IFAC?
   (b) Explain the relationship between IAS 5, SAS 2 and CAMA 1990 regarding disclosure in financial statements

6. (a) List the main sections of a Cash Flow Statement.
   (b) Explain what is meant by cash equivalents.

7. (a) State two characteristics of a multinational company.
   (b) Distinguish between currency conversion and currency translation.
   (c) On July 11, 2014Kulundu Plc , where you are the Financial Accountant, received goods worth N895 million from a subsidiary in Atlanta, USA. On that date, Naira exchanged as follows:

US Dollar	1:150
Japanese Yen	1:86

If the cross rate between US$ and UK £ is 615, calculate the amount to be sent to London if that is the preferred destination for settlement.

8. (a) What are accounting ratios?
   (b) A company has total assets of N10 billion of which 40% are current assets, 25% of the current assets are cash and cash equivalents. If current liabilities amount to 255 of the total assets, compute the quick ratio.
   (c) indicate two demerits of ratios.

ASSIGNMENTS

1. (a) Explain the accounting implication of a company with head office in Lagos and operations in the London, United Kingdom, Texas, United States of America and Kumasi, Ghana.

(b) The following data relates to Nagode Nigeria Plc, a subsidiary of Bestima Plc in Oregon, USA:

Balance Sheet as at December 31, 2014

	$
Fixed assets at cost	2,250,000
Less: Depreciation	(900,000)
	1,350,000
Stock	900,000
Debtors	450,000
	2,700,000
Ordinary shares	450,000
Retained profits	1, 2 60,000
	1,710,000
Loans	495,000
Creditors	267,500
Taxation	247,500
	2,700,000

Other relevant information:

Exchange rates ;

(i)	When the company was incorporated	N 175 to $
(ii)	When the company acquired its assets	N162.5 to $
(iii)	January 1, 2014	N150 to $
(iv)	Average rate during the year ended December 31, 2014	N140 to $
(v)	On December 31, 2014	N125 to $

Required:

(i) Show the translated balance sheet of Nagode Nigeria Plc as at December 31, 2014.

(ii) Explain the main distinction between translation of currency and conversion of currency in multinational companies

2. (a) Explain the accounting implication of multinational operation.

(b) The following data relates to Afolami Nigeria Plc., a subsidiary of Trump Plc., Texa, USA.

Balance sheet as at December 31, 2019

	N
Non-current assets at cost	4,250,000
Less; depreciation	(1,900,000)
	2,350,000
Stock	900,000
Debtors	750,000
	4,000,000
Ordinary shares	750,000
Retained Earnings	1,760,000
	2,510,000
Long term loans	795,000
Creditors	365,000
Taxation	330,000
	4,000,000

Other relevant information:

Exchange rates:

(i)	When the company was incorporated in 2008	N125/$
(ii)	When company acquired its assets in 2009	N145.5/$
(iii)	January 1, 2019	N350/$
(iv)	Average rate during the year ended December 31, 2019	N330/$
(v)	On December 31, 2019.	N325/$

(i) Show the translated balance sheet for Chinaka Nigeria Plc., as at December 31, 2019.

(ii) Estimate the real value of the net-current assets on December 31, 2019 after translation

(iii) If the base rate of inflation in 2008 was 100 and 142 on December 31, 2019, indicate the real value of the non-current assets prior to translation.

(iv) With reference to IAS 29, explain the mature of inflation prevalent in Nigeria, the host country of operation.

3. With reference to verifiable examples, explain how multinational companies adapt to local environment in Nigeria in their business models.