

Part B The only difference in this case, with the certificate of deposit designated a hedging item, is that the income components of the December 31, 2002 entries would be netted. One entry could be used for this purpose:

Accounts Payable [(US\$275,000)(C\$1.55)]	\$426,250	
Cash [(US\$300,000 - US\$275,000)(C\$1.60)]	40,000	
Exchange Gain		\$ 1,250
Investments [(US\$300,000)(C\$1.55)]		465,000

Exercise Nine - 5 Solution

Part A The required journal entries would be as follows:

September 30, 2002

Temporary Investments [(£375,000)(\$2.30)]	\$862,500	
Cash		\$862,500

December 1, 2002

Cash [(£385,000)(\$2.27)]	\$873,950	
Exchange Loss [(£375,000)(\$2.30 - \$2.27)]	11,250	
Gain On Sale Of Investments		\$ 22,700
[(£385,000 - £375,000)(\$2.27)]		
Temporary Investments		862,500

Part B The required journal entries would be as follows:

September 30, 2002

Temporary Investments [(£375,000)(\$2.30)]	\$862,500	
Cash		\$862,500

December 1, 2002

Equipment [(£375,000)(\$2.30)]	\$862,500	
Cash [(£385,000)(\$2.27)]	873,950	
Gain On Sale Of Investments		\$ 22,700
[(£385,000 - £375,000)(\$2.27)]		
Accounts Payable [(£375,000)(\$2.27)]		851,250
Temporary Investments		862,500

December 31, 2002

Accounts Payable [(£375,000)(\$2.27)]	\$851,250	
Exchange Gain [(£375,000)(\$2.27 - \$2.25)]		\$ 7,500
Cash [(£375,000)(\$2.25)]		843,750

**Exercise
Solution
Nine-5
correction**

Part B -
Journal
entries for
December 1
and 31,
2002 have
been
corrected.

Exercise Nine - 6 Solution

The required journal entries would be as follows:

October 15, 2002

Merchandise [(€425,000)(\$1.38)]	\$586,500	
Accounts Payable		\$586,500
Temporary Investments [(€425,000)(\$1.38)]	\$586,500	
Cash		\$586,500