

Solution To Assignment Problem Nine-5 Part B

The first two entries for April 1, 2008 were wrong. The correct entries are in red below. No other changes to the solution.

Part B

Using cash flow hedge accounting, the required journal entries are as follows:

December 1, 2007

No entries are required on this date, either for the forward exchange contract which has a fair value of nil, or for the foreign currency commitment.

December 31, 2007

Other Comprehensive Income - Exchange Loss	\$9,852	
Forward Exchange Contract		\$9,852

The fair value of the forward exchange contract is \$9,852 [(W500,000)(\$0.55 - \$0.53)(.98515)]. The contract is a liability in that it calls for the delivery of North Korean won at a rate that is less than the three month forward rate.

April 1, 2008

Accounts Receivable [(W500,000)(\$0.54)]	\$270,000	
Sales		\$270,000
Cash	\$270,000	
Accounts Receivable [(W500,000)(\$0.54)]		\$270,000

Forward Exchange Contract		
[(W500,000)(\$0.54 - \$0.53) - \$9,852]	\$4,852	
Other Comprehensive Income - Exchange Gain		\$4,852