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The merchandise delivery date is changed from April 1, 2008 to December 1, 2007 to clarify the forward exchange contract is a hedge of an Exposed Monetary Balance, not an Anticipated Transaction.

Assignment Problem Nine - 5

On December 1, 2007, the Hedgor Company, a Canadian based trading company, buys merchandise from a Hong Kong distributor for 2,000,000 Hong Kong dollars (HK$, hereafter). The merchandise is delivered on December 1, 2007. The invoice will be paid in Hong Kong dollars on April 1, 2008.

In order to protect itself from foreign exchange risk, Hedgor enters a forward exchange contract to buy HK$2,000,000 on April 1, 2008 at a rate of HK$1 = $0.17. The Company does not document a hedging relationship between the Accounts Payable and the forward exchange contract.

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In Case One, Martin Ltd. has an Accounts Receivable, not an Accounts Payable arising from the sale.

Assignment Problem Nine - 6

Required

In each of the following independent Cases, provide the journal entries required to record the foreign currency transactions described. All of the enterprises involved in these transactions have a December 31 year end. The present value of $1, discounted at a rate of 1 percent per month, for relevant periods is as follows:

One Month	$0.99010
Two Months	$0.98030
12 Months	$0.88745
24 Months	$0.78757

Case One

On November 15, 2007, Martin Ltd. sells merchandise in South Africa for 250,000 South African rands (R, hereafter). On this date, the spot rate for the rand was R1 = $0.15. Payment for this merchandise is expected on March 1, 2008 and, in order to hedge their position, on November 15, 2007 Martin Ltd. enters a forward exchange contract to deliver R250,000 on March 1, 2008 at a rate of R1 = $0.175. Martin does not designate a hedging relationship between the Accounts Receivable and the forward exchange contract. Additional exchange rates are as follows: