

Question 1 — Mansell Limited

Mansell Limited is preparing its financial statements for the year ending **31 December 2014**. Included in its stock are goods purchased on **15 November 2014** for **FF110,000**. Mansell Limited paid for these goods on **10 January 2015**.

The exchange rates were as follows:

Date	Exchange rate (FF to £1)
15 November 2014	10.50
31 December 2014	10.90
10 January 2015	10.75

Required

At what amounts should the **stock** and **creditor** relating to this transaction be included in the balance sheet as at **31 December 2014**?

Options:

	Stock	Creditor
A	£10,476	£10,092
B	£10,092	£10,476
C	£10,476	£10,233
D	£10,092	£10,233

Stock is translated using the **historical exchange rate** on the date of purchase:

$$FF110,000 \div 10.50 = £10,476$$

Therefore:

Stock = £10,476

The **creditor** is translated at the **closing exchange rate** at 31 December 2014:

$$FF110,000 \div 10.90 = £10,092$$

Therefore:

Creditor = £10,092

Answer: A - Stock £10,476; Creditor £10,092

Question 2- Exchange Difference

What is the exchange difference taken to the **profit and loss account** for the year ended **31 December 2014**?

A £384 gain

B £384 loss

C £242 gain

D £242 loss

Calculation

Stock recorded at the transaction date:

£10,476

Creditor at the year-end closing rate:

£10,092

Exchange difference:

$$£10,476 - £10,092 = £384$$

Because the liability has decreased in sterling terms, this represents an **exchange gain**.

Answer: A - £384 gain

Question 3 - Classification of Exchange Difference

Under which heading should this exchange difference be included in Mansell Limited's profit and loss account?

Options:

A. Other interest receivable and similar income

B. Interest payable and similar charges

C. Other operating expenses

D. Other operating income

Since the exchange difference is a **gain**, it is reported as income.

Answer: D- Other operating income

Question 4 - Prost Limited

Prost Limited ordered an item of **plant and machinery** costing **SFr107,415** from a Swiss company on **1 September 2011**. The Swiss company manufactured the item, which was subsequently shipped and invoiced on **1 November 2011**. Prost Limited paid the invoice on **15 December 2011**. Prost Limited's financial year ends on **31 December 2011**.

The exchange rates were as follows:

Date	Exchange rate (SFr to £)
1 September 2011	3.00
1 November 2011	3.10
15 December 2011	3.30
31 December 2011	3.50

Required

What exchange difference should Prost Limited report in its **profit and loss account**?

Options:

- A. £1,155
- B. £2,100
- C. £3,255
- D. £3,960

Calculation

The machinery is recognised when it is **purchased/invoiced**, on 1 November 2011:

$$\text{SFr}107,415 \div 3.10 = \text{£}34,650$$

The amount paid on 15 December 19X1 is translated at that date's exchange rate:

$$\text{SFr}107,415 \div 3.30 = \text{£}32,550$$

Exchange difference:

$$\text{£}34,650 - \text{£}32,550 = \text{£}2,100$$

So the exchange difference is approximately:

£2,100 gain. B

Dr	£	Cr	£
Creditors	34,650	Fixed assets	34,650
Cash	32,550		
P&L — exchange gain	2,100		
Total	34,650	Total	34,650