EX2-

An entity purchases equipment from a foreign supplier for **€6** million on March 31, 20X2, when the exchange rate was **€2 = $1**. The entity also sells goods to a foreign customer for €**3.5** million on April 30, 20X2, when the exchange rate was **€1.75 = $1**. At the entity’s year-end of May 31, 20X2, the amounts

have not been paid. The closing exchange rate was **€1.5 = $1.** The entity’s **functional currency is the dollar**.

***Required***

Calculate the exchange differences that would be recorded in profit or loss for the period ending May 31,20X2

**Case study**

An entity commenced business on January 1, 20X2, with an opening share capital of $2 million.The income statement and closing balance sheet follow:

**Income Statement for the year ended December 31, 20X2**

|  |  |
| --- | --- |
|  | **$ m** |
| **Revenue**  Cost of sales  .Gross profit  Distribution costs  Administrative expenses  .**Profit before tax**  Tax expense  **Profit for period** | **32**  **(10)**  **22**  **(8)**  **(2)**  **12**  **(4)**  **8** |

**Balance Sheet at December 31, 20X2**

|  |  |
| --- | --- |
|  | **$ m** |
| **Share capital**  **Retained earnings 8**  **.**  **Trade payables**  **Total equity and liabilities**  **Land (non-depreciable) acquired December 31, 20X28**  **.Profit**  **Inventories**  **Trade receivables**  **Total assets** | **2**  **8**  **10**  **4**  **14**  **8**  **4**  **2**  **14** |

The functional currency is the dollar, but the entity wishes to present its financial statements using the euro as its presentational currency. The entity translates the opening share capital at the closing rate. The exchange rates in the period were

**$1=**

**January 1, 20X2 €1**

**December 31, 20X2 €2**

**Average rate €1.5**

***Required***

Translate the financial statements from the functional currency to the presentational currency.