

Exercise 11-2

Lakey International, a foreign corporation maintains its books of record in foreign currency, although its functional currency is the US dollar. Lakey originally began operations on July 1, 2012, by issuing no par common stock in the amount of 200,000 FC. At the beginning of 2014, a US Corporation acquired an 80% interest in Lakey's shareholders' equity consisting of 200,000 FC of common stock and 50,000 FC of retained earnings. The US Corporation maintained its 80% interest in 2014, when additional stock in the amount of 140,000 FC was issued when the rate of exchange of 1 FC was equal to a \$1.68.

You're given condensed income statements for Lakey expressed in FC.

Lakey accounts for its inventory using the LIFO method and goods available-for-sale consisted of beginning inventory and purchases for the years 2014 and 2015.

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Lakey began operations with 300,000 FC of equipment and then added additional equipment as follows: 60,000 FC and 150,000 FC on September 30, 2014, and July 1, 2015, respectively. All equipment is depreciated using the straight-line method over a 15 year useful life. Although no dividends were paid in 2014, Lakey did pay a 20,000 FC dividend in the second quarter of 2015 when 1 FC equaled \$1.72.

Determine the remeasured value of stockholders' equity, excluding the remeasurement gain or loss, for the years 2014 and 2015. Additional selective rates of exchange are given.

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Starting with the no-par common stock:

Item	In FC	Rate	Remeasured
1/1/14 Common Stock	200,000	1.61	\$322,000
Issued in 2015	140,000	1.68	235,200
Total no par common stock	<u>340,000</u>		<u>\$557,200</u>

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2014 Net Income

	In FC	Rate	Remeasured
Net sales	1,350,000	1.63	\$2,200,000
COGS (900,000)			
Last purchase	(500,000)	1.64	(820,000)
Next to last purchase	(400,000)	1.62	(648,000)
Depreciation expense (21,000)			
On 7/1/13 Equipment	(20,000)	1.61	(32,200)
On 9/30/14 Equipment	(1,000)	1.65	(1,650)
Other expenses	(210,000)	1.63	(342,300)
Remeasurement gain/loss		Exclude	
2014 Net Income	<u>219,000</u>		<u>\$356,350</u>

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2015 Net Income

	In FC	Rate	Remeasured
Net sales	2,240,000	1.70	\$3,808,000
COGS (1,400,000)			
Last purchase	(500,000)	1.68	(840,000)
Next to last purchase	(300,000)	1.75	(525,000)
Next purchase	(600,000)	1.73	(1,038,000)
Depreciation expense (29,000)			
On 7/1/13 Equipment	(20,000)	1.61	(32,200)
On 9/30/14 Equipment	(4,000)	1.65	(6,600)
On 7/1/15 Equipment	(5,000)	1.74	(8,700)
Other expenses	(320,000)	1.70	(544,000)
Remeasurement gain/loss		Exclude	
2015 Net Income	<u>491,000</u>		<u>\$813,500</u>

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Retained Earnings

	In FC	Rate	Remeasured
Retained Earnings, 1/1/14	150,000	1.61	\$241,500
Add: 2014 Net Income	219,000		356,350
Deduct: 2014 Dividends	<u>0</u>		<u>0</u>
Retained Earnings 12/31/14	<u>369,000</u>		<u>\$597,850</u>
Retained Earnings 1/1/15	369,000		\$597,850
Add: 2015 Net Income	491,000		813,500
Deduct: 2015 Dividends	(20,000)	1.72	(34,400)
Retained Earnings 12/31/15	<u>840,000</u>		<u>\$1,376,950</u>

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