... recent years. Compare the relative magnitude of the translation adjustments between the two companies.

c. Determine whether each company hedges the net investment in foreign operations. If so, determine the type(s) of hedging instrument(s) used.
d. Prepare a brief report comparing and contrasting the foreign currency translation and foreign currency hedging policies of these two companies.

Case 8-1

Columbia Corporation

Columbia Corporation, a U.S.-based company, acquired a 100 percent interest in Swoboda Company in Lodz, Poland, on January 1, Year 1, when the exchange rate for the Polish zloty (PLN) was $0.25. The financial statements of Swoboda as of December 31, Year 2, two years later, are as follows:

Balance Sheet
December 31, Year 2

Assets	
Cash	PLN 1,000,000
Accounts receivable (net)	1,650,000
Inventory	4,250,000
Equipment	12,500,000
Less: Accumulated depreciation	(4,250,000)
Building	36,000,000
Less: Accumulated depreciation	(15,150,000)
Land	3,000,000
Total assets	PLN 39,000,000
Liabilities and Stockholders' Equity	
Accounts payable	PLN 1,250,000
Long-term debt	25,000,000
Common stock	2,500,000
Additional paid-in capital	7,500,000
Retained earnings	2,750,000
Total liabilities and stockholders' equity	PLN 39,000,000

Statement of Income and Retained Earnings
For the Year Ending December 31, Year 2

Sales	PLN 12,500,000
Cost of goods sold	(6,000,000)
Depreciation expense—equipment	(1,250,000)
Depreciation expense—building	(900,000)
Research and development expense	(600,000)
Other expenses (including taxes)	(500,000)
Net income	PLN 3,250,000
Plus: Retained earnings, 1/1/Y2	250,000
Less: Dividends, Year 2	(750,000)
Retained earnings, 12/31/Y2	PLN 2,750,000

Additional information:

- The January 1, Year 2, beginning inventory of PLN 3,000,000 was acquired on December 15, Year 1, when the exchange rate was \$0.215. Purchases of inventory during Year 2 were acquired uniformly throughout the year. The December 31, Year 2, ending inventory of PLN 4,250,000 was acquired evenly throughout the fourth quarter of Year 2 when the exchange rate was \$0.16.
- All fixed assets were on the books when the subsidiary was acquired except for PLN 2,500,000 of equipment which was acquired on January 3, Year 2 when the exchange rate was \$0.18 and PLN 6,000,000 in buildings which was acquired on August 5, Year 2 when the exchange rate was \$0.17. Equipment is depreciated on a straight-line basis over 10 years. Buildings are depreciated on a straight-line basis over 40 years. A full year's depreciation is taken in the year of acquisition.

- Dividends were declared and paid on December 15, Year 2, when the exchange rate was $0.155.
- Other exchange rates for Year 2 are:

January 1	$0.200
Average for the year	0.175 ✓
December 31	0.150

Required

1. Translate Swoboda's financial statements into U.S. dollars in accordance with U.S. GAAP at December 31, Year 2:
   a. Assuming the Polish zloty is the functional currency. (The December 31, Year 1, retained earnings that appeared in Swoboda's translated financial statements was $56,250. The December 31, Year 1, cumulative translation adjustment that appeared in Swoboda's translated balance sheet was negative $506,250.)
   b. Assuming the U.S. dollar is the functional currency. (The December 31, Year 1, retained earnings that appeared in Swoboda's remeasured financial statements was $882,500.)
   c. The same as (*b*) except Swoboda has no long-term debt. Instead, Swoboda has common stock of PLN 10,000,000 and additional paid-in capital of PLN 25,000,000. The December 31, Year 1, retained earnings that appeared in Swoboda's remeasured financial statements was negative $367,500.
2. Explain why the sign of the translation adjustments in (1*a*), (1*b*), and (1*c*) is positive or negative.