Case 6-2

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**Introduction**

This paper is about the analysis of the case “Managing Offshore Investment: Whose Currency”. In this report, the case will be analyzed from every perspective. After analysis of the case, the given arguments in the case have been picked from the case and analyzed that what they state about the functional currency. In other words, the paper analyzes the case in terms of arguments presented in it and then provides reasons that which currency has to be the functional currency.

**Analysis**

The case presents several strong arguments, so based on all of the presented arguments, I think that the EURO has to be the functional currency in the case we have at hand. Several strong reasons clarify why the functional currency in the case “Managing Offshore Investment” should be euro. Some of the reasons are;

1. The operational cash flow of all investments are completely located in the state of Spain.
2. The invested amounts of funds receive all of its returns or incomes from Spain and even though the payments of occurred expenses were made in US dollars, while the income was made in euros which comes from Spain (Choi, & Meek, 2010).
3. All of the potential investors invest their funds in the Spanish Security in euros and it is the major role and part of Shady Rest.
4. Based on the definitions of functional currency by the FAS 52, FAS 52 defined the concept as *“the currency of the main and primary economic environment where the entity (firm) operates/works”*. So the case we have at hand, the entity (Shady Rest) operates in Spain where Euro is the currency of primary environment.
5. In the FAS 52, paragraph 6 positions *“for an entity with operations that are relatively self-contained and integrated within a particular country, the functional currency generally would be the currency of that country”* (Choi, & Meek, 2010).So, the statement strengthens the operational perspectives which govern the choice or selection of functional currency, which is the euro.

Beyond above reasons, the analysis of management viewpoint also shows that the US dollars should not be the functional currency. This means that euro should be considered and used as the functional currency. The key viewpoints of the management which disagree that the US dollars should be the functional currency are;

Auditors would fail to distinguish the reporting currency from functional currency. So there is no doubt that the US dollar would be reporting currency which lonely does not mean that US$s is functional currency. As well as the considerations of SEC regulations and US tax are appropriate only for reporting currency not for functional currency (Choi, & Meek, 2010). So this reason from auditors has not been found a valued one for choosing the US dollar as the functional currency.

Besides, in terms of using the US $s as functional currency, indicates there would be a clear, practical and realistic option on every transaction of movement between euro and US dollar. This assumption is patently not right (Kim, & Wei, 2012). So based on this presented argument all other listed above, euro should be and must be the functional currency in the case of Managing Offshore Investment: Whose Currency.

**Conclusion**

After a deep analysis of the case “Managing Offshore Investment: Whose Currency” and presented arguments in the case, it has been stated and concluded that euro has to be functional currency. On the basis of presented material and arguments in the case and their analysis, the euro has been finalized as the functional currency. Euro has been selected as the functional currency because of several reasons like disagreement of management’ viewpoints, failing of auditors to distinguish reporting currency from the functional, complete location of operating cash flow in Spain, and investors’ investments in Spanish Security in euros. Apart from mentioned arguments, based on the definition by the FAS 52, the functional currency should be the currency of main/primary economic or commercial environment in which company or firm operates/works while the currency in Spain is euro.

**References**

Choi, F, & Meek, G. (2010). International Accounting, 7th edition. Upper Saddle River, N. J.: Pearson Education. ISBN: 9780136111474

Kim, W., & Wei, S. J. (2012). Offshore Investment Funds: Monsters in Emerging Markets? Journal of Development Economics, 68(1), 205-224.