Will u please solve this? USA firm recieved Euro 120000. 1$= Euro 0.7937/0.8000..... What would be ur answer? Sorry, but i hope it perhaps it will clear my doubt.

USA Firm is our client. The home currency of USA is "$". USA received Euro (i.e. foreign currency).

USA needs to convert foreign currency into it's home currency.

Therefore, convert Euro into US$.

In the given case, the foreign exchange rate given is:

1$= Euro 0.7937/0.8000

It is "INDIRECT QUOTE" since there is one unit of home currency (i.e. 1 $) and corresponding units is of foreign currency (i.e., Euro).

Identify the left hand currency. It's "$".

Always think from "Bank point of view".

Bank always buy left hand currency at Bid Rate and bank always sells left hand currency at ask rate.

We know that when left hand currency ("$") is moving towards bank, then it means that Bank is buying $ at Bid Rate whereas when left hand currency ("$") is moving towards customer the it means that Bank is selling $ at Ask rate.

In our case, $ is a left hand currency. We received income in Euro (i.e. in foreign currency). So, as per client point of view, we are selling Euro whereas buying $ from Bank.

In other words, Bank is Selling $ to the client and buying Euro from the client.

So, Keeping in mind the requirements of client and consider from bank point of view, bank will "sell" $ at ask rate (i.e. 0.8000).

Hence, 1$ = Euro 0.8000

And,

USA firm recieved Euro 120000.

It means USA received equivalent home currency (i.e. $) would be (Euro 120000 * $1)/Euro 0.8000 = $ 1,50,000.

Hence, The bank buys Euro 120000 for $ 150000, In other words, USA Firm receives $ 150000.

Hence,

My efforts to make the concept is now clear to you.

Please give response for the same.

Regards

Rahul Bansal

CA Final