

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FOURTH YEAR EXAMINATION FOR THE AWARD OF
DEGREE OF BACHELOR OF COMMERCE**

BCOM 415: INTERNATIONAL ACCOUNTING

STREAMS:

TIME: 2 HOURS

DAY/DATE : WEDNESDAY 22 /09/ 2021

2.30 PM – 4.30 PM

INSTRUCTIONS TO CANDIDATES:

- Answer Question One and any other Two Questions.
- DO NOT WRITE ANYTHING on the question paper.

QUESTION ONE

- a) In response to worldwide demand from regulators, investors, business and auditing firms for a single set of high-quality, globally-accepted accounting standards, more than 100 countries currently allow publicly-held companies to use International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB).

Required:

Explain any four benefits adoption of a single set of high-quality, globally accepted accounting standards yields. [6 Marks]

- b) ABC limited acquired 80% share in XYZ limited, based in South Africa for Rand 400,000 on 1st January 2019, when the retained reserve stood at Rand 75,000. The separate financial statements of ABC and XYZ, each in their own currency is presented below.

BCOM 415

Statements of Financial Position as at 31 December 2020

	ABC KSH	XYZ Rand
Property, plant and Machinery	1,202,000	1,180,000
Investment in XYZ Limited	100,000	-
Inventory	190,000	132,000
Cash at Bank	92,000	32,000
Account Receivable	<u>150,000</u>	<u>93,000</u>
	<u>1,734,000</u>	<u>1,437,000</u>
Equity and Liabilities		
Ordinary Share Capital	500,000	400,000
Revenue Reserves	<u>634,000</u>	<u>437,000</u>
Shareholder Fund	1,134,000	837,000
Non-current Liabilities	200,000	350,000
Current Liabilities	<u>400,000</u>	<u>250,000</u>
	<u>1,734,000</u>	<u>1,437,000</u>

Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 Dec 2020

Revenue	2,500,000	1,800,000
Cost of sales	<u>(1,200,000)</u>	<u>(1,100,000)</u>
Gross Profit	1,300,000	700,000
Other Income	97,000	80,000
Distribution cost	(125,000)	(110,000)
Administration expenses	(354,000)	(250,000)
Finance cost	<u>(93,000)</u>	<u>(100,000)</u>
Profit before taxation	825,000	320,000
Taxation	<u>(400,000)</u>	<u>(250,000)</u>
Profit for the year	425,000	70,000
Other Comprehensive Income	<u>7,500</u>	<u>-</u>
Total Comprehensive Income	<u>432,500</u>	<u>70,000</u>

The following additional information is available:

It is the policy of the group to measure non-controlling interest at acquisition at the proportion of net identifiable assets of subsidiary.

The following exchange rates are relevant:

January 1, 2019 Rand 4.0 to Ksh.1

Average for the year 2020 Rand 5.0 to Ksh.1

BCOM 415

Subsidiary Statement of Financial Position as at 31st December

	2020 FC '000'	2019 FC'000'
Non-Current assets:		
Property and equipment	2,400	2,250
Accumulated depreciation	<u>(410)</u>	<u>(260)</u>
	<u>1,990</u>	<u>1,990</u>
Current assets:		
Bank	750	600
Account Receivable	1,400	1,700
Inventories	1,500	1,600
Prepaid expenses	<u>45</u>	<u>-</u>
	<u>3,695</u>	<u>3,900</u>
Current Liabilities		
Payable	<u>2,800</u>	<u>2,700</u>
	<u>2,885</u>	<u>3,190</u>
Equity and Non-current Liabilities		
Ordinary Share Capital	800	800
Retained earnings	<u>485</u>	<u>390</u>
Shareholder's equity	1,285	1,190
10% debenture	<u>1,600</u>	<u>2,000</u>
	<u>2,885</u>	<u>3,190</u>

Subsidiary Statement of income for the year ended 31st December

	FC'000'
Sales	8,000
Cost of goods sold	(6,400)
General and administrative	(650)
Depreciation	<u>(150)</u>
Operating Profit	800
Interest	(220)
Taxes	<u>(305)</u>
Profit for the Year	275
Retained earnings at 1 January 2020	390
Less dividends paid	<u>(180)</u>
Retained earnings at 31 December 2020	485

The following additional information is available:

1. The exchange rate between the Kenya shillings and FC 1 unit (FCI) was 0.317 at 31 December 2019, 0.406 at 31 December 2020 and the weighted average exchange rate for 2020 was 0.346.

2. The only change in property and equipment other than the annual depreciation charge was a cash purchase of property on 1 January 2021 for FC 150,000
3. The decrease in debt relates to principal payments as at end of year 2021
4. The dividend was paid on 31 December 2021

Required:

A translated Statement of Cash flows for the foreign subsidiary in Kenya shillings [20 Marks]

QUESTION FOUR

- a) Write short notes on the International Public Sector Accounting Standards (IPSAS).
[6 Marks]
- b) A company owns 100,000 barrels of crude oil which were purchased on 1 July 2020 at a cost of \$26.00 per barrel. In order to hedge the fluctuation in the market value of the oil the company signs a futures contract on the same date to deliver 100,000 barrels of oil on 31 March 2021 at a futures price of \$27.50 per barrel

Due to unexpected increased production, the market price of oil on 31 December 2020 slumped to \$22.50 per barrel and the futures price for delivery on 31 March 2021 was \$23.25 per barrel at that date.

Required

Explain whether the transaction is a fair value or cash flow hedge and summarize the accounting entries in respect of the transactions for the year ended 31 December 2020. [6 Marks]

- c) Explain any four criticisms labeled against International Financial Reporting Standards.
[8 Marks]
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