

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

### ODEL

#### EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

#### BCOM 415: INTERNATIONAL ACCOUNTING

**STREAMS: Y4S2**

**TIME: 2 HOURS**

**DAY/DATE: TUESDAY 30/03/2021**

**8.30 A.M – 10.30 A.M**

#### INSTRUCTIONS:

#### QUESTION ONE

(a)XYZ PLC, a Kenyan multinational company whose functional currency is Kenya shillings with an accounting year end of 31<sup>st</sup> December of each year purchased raw materials on credit from smart Inc. of the United States of American invoiced at \$ 10,000 on 2<sup>nd</sup> April 2015, when the exchange rate was ksh 101 – US\$ 1. XYX PLC settled its account on 30<sup>th</sup> July 2015 when the exchange rate was ksh 105 = US\$1. You are required to show the foreign currency gain(s) or losse(s) to XYZ PLC by way of journal entries. [6 marks]

(b)Pluto ltd is a company listed on a well-known international stock exchange. It has three major lines of business; namely retail ,wholesale, and export. Each major line of business has a chief operating officer (COO) who is the responsible for the business component’s profitability. The company has a chief executive officer (CEO) who is overall in charge of the entire business of the entity and reports to the Board Of Directors (Board) on the results of operations of Pluto ltd. The CEO has the authority from the Board to decide on the performance bonus of each COO, for which the CEO has set key performance indications (KPLs) against which they are evaluated each year by the CEO. Discrete financial information for each of the major lines of business of Pluto ltd. Is available.

The CEO has been entrusted by the Board to allocate funds for the day-to-day operations of the three lines of business, which he does based on criteria such as their comparative profitability, size of business generated, and cash flows from operations. Based on the aforementioned details

about the functioning of pluto ltd and other relevant information provided, who is the chief operating Decision Maker (CODM) for the purposes of IFRS 8? Is it the board, the CEO, or each COO for the line of business that he or she is responsible for? [4 marks]

(c) Moshi Ltd established a branch in Moshi Tanzania on 1.1.2012, when ksh 1 = TShs 16. PPE costing ksh 960,000 were purchased on that day. In addition, cash ksh 650,000 was sent to Arusha on 1.1.2012, together with goods which had cost Moshi Ltd ksh 1 million. The Arusha branch sells HO goods and also goods purchased in Tanzania.

Arusha branch trial balance as at 31.12.2012

	Dr TSH'000'	Cr. TSH'000'
PPE	24,000	
Sales		96,000
Goods from head office	30,000	
Purchases in Tanzania	30,000	
Expenses	36,000	
Receivables and payables	4,000	1,000
Cash at bank	4,000	
Remittances to Kenya	39,000	
Head office current account		39,000
	<u>167,000</u>	<u>167,000</u>

**Additional information;**

- (1) Inventory as at 31<sup>st</sup> December 2012 was valued at Tsh 6 million, being goods from HO.
- (2) Depreciation is to be charged at 10% on the cost of fixed assets.
- (3) Accrued expenses amounted to Tsh 1.5 million
- (4) Prepaid expenses amounted to Tsh 1.8 million.
- (5) There was no closing inventory of goods purchased in Tanzani.
- (6) The remittance was made on 1<sup>st</sup> October and translated into ksh 1,650,000

(7) Exchange rates during the year were:

31 Dec 2012: ksh 1 = Tsh 11

1 Oct 2012 : ksh 1 = Tsh 13 (Approx)

Average for the year = ksh 1 = Tsh 12

Required :

- (i) Translate the trial balance to Kenya shillings using functional currency method of translation. [7 marks]
- (ii) Income statements for the year to 31 December 2012 and balance sheets as at that date in Kenya shillings using functional currency method translation. [13 marks]

**QUESTION TWO**

- (a) You have been invited to an account public lecture to argue the case for and against harmonization/ convergence of accounting practice. Highlight and explain your key tenets. [14 marks]
- (b) Describe the standard setting procedure used at the IASB. [6 marks]

**QUESTION THREE**

- (a) Explain four internal users of international information. [4 marks]
- (b) Describe problems caused by accounting diversity [8 marks]
- (c) Zimbabwe ltd, a company of fast moving consumer goods, is identified as having a reporting currency of a hyper inflationary economy . It follows the cost model for measuring property, plant and equipment as per IAS 16. It has the following information as at 31<sup>st</sup> December 2014 and 2015.

	31 <sup>st</sup> Dec 2014	31 <sup>st</sup> Dec 2015
	Rand	Rand
Acquisition cost(Date of acquisition 2007)	2,000	2,000
Accumulated depreciation	500	600

Index on the date of acquisitions is 110,1,200 on 31<sup>st</sup> December 2014 and 2,000 on 31<sup>st</sup> December, 2015. You have required to show the restatement of property, plant and equipment's in the statement of financial position of the company on 31<sup>st</sup> December 2014 and 31<sup>st</sup> December 2015 in line with IAS 1 and IAS 29. [8 marks]

**QUESTION FOUR**

Evaluate both internal and external techniques on hedging foreign exchange risk. [20 marks]

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