

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 415: INTERNATIONAL ACCOUNTING

STREAMS:Y4S2

TIME: 2 HOURS

DAY/DATE: TUESDAY 10/04/2018

8.30 A.M – 10.30 A.M

INSTRUCTION:

- **Answer question one and any other two questions**

1. (a) Differentiate between reporting currency and functional currency. [4marks]

(b) Explain the three conceptual levels of international accounting. [6marks]

(c) Lela Ltd, cement company is a multinational corporation (MNC) operating in the USA and parent company in Kenya. The final accounts for the last year to 30th September 2013 are given below:

	USA branch 2013 \$ '000'	Kenya branch 2013 Ksh '000'
Sales	864,000	528,000
Cost of sales	(734,400)	(422,400)
Gross profit	129,600	105,600
Expenses –depreciation	(43,200)	(36,000)
-marketing	(14,400)	(7,200)
-administration	(12,960)	(12,960)
Interest	(7,200)	(7,200)
Profit before taxation	51,840	42,240
Taxation	(12,960)	(12,960)
Profit after taxation	38,880	29,280
Dividends	(14,400)	(9,600)
Retained profit year	24,480	19,680

Balance sheet as at December 31st 2013

	USA 2012 \$ '000'	USA 2012 Ksh '000'
Fixed assets (net)	456,000	264,000
Current assets		
Stock	67,200	45,600
Debtors	115,200	48,000
Bank & cash	134,400	93,600
	772,800	451,200
	=====	=====
Ordinary share capital ksh 20 par)	336,000	180,000
Share premium	96,000	36,000
Retained profit	121,920	97,440
Long term liabilities:		
Debentures loans	60,960	60,960
Current liabilities:		
Trade creditors	75,600	45,600
Other creditors	82,320	31,200
	772,800	451,200
	=====	=====

Required :

Hint historical exchange rate per dollar ksh 100, current exchange rate per dollar ksh 95.

- (i) Translate USA results into parent company currency using the balance approach and income statement approach. [20marks]
2. (a) Explain any four organizations involved in the development of international accounting. State the roles played by each of the organizations. [8marks]
- (b) Critically evaluate any six foreign corrupt practices that multinational corporations (MNC s) engage in . [12marks]
3. (a) Discuss the objectives of international transfer pricing by multi national corporations. In case cite suitable strategies employed by multi-national corporations to achieve these objectives. [10marks]
- (b) Double taxation is a major challenge in international accounting. Explain how MNC's over come. [10marks]
4. (a) Foreign exchange loss hedging techniques are common in international accounting. Explain five of these. [10marks]

(b) An importer plans an invoice of USD 5000 at the USA in six months time. The spot rate of ksh to USA dollar is 1 USD: ksh 100. The future rate is likely to be 1 USD: 105. The cost of buying a currency option is USD 100. The importer locked a price of 1USD for 99 in a contract.

(i) Advise the importer whether to buy an option or forward contract, show your calculations. [6marks]

(ii) Record the transaction at the point of invoicing and settlement. [4marks]
