CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF COMMERCE

BCOM 415: INTERNATIONAL ACCOUNTING

STREAMS: BCOM **TIME: 2 HOURS**

DAY/DATE: MONDAY 16/11/2020 **11.30 A.M. – 1.30 P.M.**

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

a) Where an entity operates in several different national environments it requires to determine its functional currency. Define a functional currency and explain any four primary indicators/factor that influence the choice of functional currency by an entity. (6 marks)

b) The International Public Sector Accounting Standards Board (IPSASB) is an independent standard setting board supported by the International Federation of Accountants (IFAC). Briefly describe four key features of the International Public Sector Accounting Standards. (6 marks)

c) Little Ltd whose currency is KES, received inventory from a U.S. supplier and was invoiced for US$200,000 on December 18, 2019. The company paid the account on January 15, 2020. The company's year-end is 31st December. The relevant exchange rates are as follows:

18 December 2019	KES 1.10/US$
31 December 2019	KES 1.13/US$
15 January 2020	KES 1.12/US$

Required:

Journal entries to record the transactions. (6 marks)

d) Excel Limited's functional currency is the euro (EUR). The entity receives a non-refundable amount of 100 US dollars (USD) on 1 August as advance payment for delivery of goods on 1 November. The spot EUR/USD exchange rate is 0.9 on 1 August and 1.0 on 1 November.

Required:

i) Journal entry to record transaction on 1 August 2018 (3 marks)

ii) Journal entry to record transaction on 1 November 2018 (3 marks)

e) Differences in accounting exist across the countries in the world. The diversity in accounting practice across countries results in some consequences to accounting and reporting by entities. Discuss any four problems that results due to accounting diversity (6 marks)

QUESTION TWO

A Kenyan parent company acquired a Rwanda subsidiary on 3 January 2019 when the subsidiary's retained earnings amounted to RWF 4,000. The financial statements of the Rwanda subsidiary at 31 December 2020 are presented as follows:

Statement of Financial Statements as at 31 Dec 2020

Assets	**RWF**
Property, plant and equipment	80,000
Inventories	23,000
Receivables	23,000
Cash	20,000
Total assets	**146,000**
Share capital	100,000
Retained earnings	31,000
Shareholders fund	131,000
Liabilities	
Bank loan	10,000
Trade payables	5,000
	15,000
Total Equity and Liabilities	**146,000**

Statement of profit or loss for the year ended 31 Dec 2020

	RWF
Sales	135,000
Cost of sales	(110,000)
Gross Profit	25,000
Other expenses	(7,000)
Profit before tax	**18,000**
Income tax expense	(3,000)
Net profit	**15,000**

Additional information:

1. On 30 November 2020, the Kenyan parent purchased goods from the Rwanda subsidiary for RWF 5,000. The goods remained unsold at the year-end and the payable was unpaid.

2. The applicable exchange rates: **KES /RWF**

- 3 January 2019: 0.78
- 30 November 2020: 0.8525
- 31 December 2020: 0.8562
- Average in 2020: 0.8188
- Average in 2019: 0.7261

Required: Translated financial statements for the subsidiary at 31 December 2020 in the presentation currency for the purposes of consolidation. (20 marks)

QUESTION THREE

a) Distinguish between a fair value hedge and a cash flow hedge, citing the accounting treatment for each. (4 marks)

b) Describe any three benefits that a countries derives from adopting global accepted international accounting standards. (6 marks)

c) An entity, whose functional currency is the KES, acquired 100% of the equity capital of a foreign entity at a consideration of ZAR 19 million on 30 June 2020.The fair value of the net assets of the foreign entity at that date was ZAR 16 million. The exchange rates at 30 June 2020 and 31 December 2020 were ZAR 1.2 = KES 1 and ZAR 1.4 = KES 1 respectively.

Required:

The goodwill to be included in the group financial statements for the year ended 31 December 2020 if goodwill is not impaired. (10 marks)

QUESTION FOUR

a) Describe any five criticisms labeled against International Financial Reporting Standards. (10 marks)

b) An entity has inventory of 100,000 barrels of crude oil which were purchased on 1 July 2019 at a cost of KES 26.00 per barrel.

In order to hedge the fluctuation in the market value of the oil, the company signed a futures contract on the same date to deliver 100,000 barrels of oil on 31 March 2020 at a futures price of KES 27.50 per barrel.

Due to unexpected increased production, the market price of oil on 31 December 2019 slumped to KES22.50 per barrel and the futures price for delivery on 31 March 2020 was KES 23.25 per barrel at that date.

Required:

Explain the impact of the transactions on the financial statements of the company for the year ended 31 December 2019. (10 marks)
