

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: WEDNESDAY 08/04/2020

8.30 A.M. – 10.30 A.M.

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE

- (a) ABC Ltd, acquired 80% share in XYZ Ltd, based in Rwanda on 1st Jan 2017, when the exchange rate was 4.0 Rwf to Ksh. 1 and XYZ Ltd's reserve stood at 75,000 Rwf as at that date. The financial position of the companies at 31 December, 2018 was as follows:

	ABC Ksh. '000'	XYZ Rwf '000'
Assets		
Property, plant and equipment	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		
Share capital	500,000	400,000
Reserves	634,000	437,000
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>

Statement of Income for the year ended 31 December, 2018

	ABC Ksh. '000'	XYZ Rwf '000'
Revenue	2,500,000	1,800,000
Cost of sales	(1,200,000)	(1,100,000)
Gross profit	1,300,000	700,000
Other Income	97,000	80,000
Distribution cost	(125,000)	(110,000)
Administration expense	(354,000)	250,000
Finance cost	(93,000)	(100,000)
Profit before tax	825,000	70,000
Income tax expenses	(400,000)	(250,00)
Profit for the year	425,000	70,000
Other comprehensive income	<u>7,500</u>	<u> </u>
Total comprehensive income for the year	<u><u>432,500</u></u>	<u><u>70,000</u></u>

The following addition information is available:

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

2. The following exchange rates are relevant

January 1, 2017	4.0 Rwf to Ksh. 1
Average for the year 2018	5.0 Rwf to Ksh.1
December 31,2017	4.8 Rwf to Ksh. 1
December 31, 2018	6.0 Rwf to Ksh. 1

3. No impairment losses were necessary in the consolidated financial statements by 31 December 2018

Required:

Prepare the consolidated statement of profit or loss and other comprehensive income and statement of financial position for the ABC Group for the year ended 31 December 2018.
(20 marks)

(b) The International Public Sector Accounting Standards Board (IPSAB) has developed a set of International Public Sector Accounting Standards based on International Financial Reporting Standards (IFRS).

Required.

Compare and contrast the International Public Sector Accounting Standards and International Financial Reporting Standards. (6 marks)

- (c) An entity has inventory of 100,000 barrels of crude oil which were purchased on 1 July 2019 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 2020 at a price of \$27.50 per barrel.

Due to unexpected increased production, the market price of oil on 31 December 2019 slumped to \$22.50 per barrel and the futures price for delivery on 31 March 2020 was \$ 23.25 per barrel at that date.

Required

Explain the impact of the transactions on the financial statement of the company for the year ended 31 December 2019. (4 marks)

QUESTION TWO

- (a) Briefly explain any three benefits that a countries derives from adopting global accepted international accounting standards. (6 marks)

- (b) Entity A has its head office in its home country (HC) but sells most of its products in an overseas jurisdiction of foreign currency (FC). Most of entity A’s raw material purchases are denominated in FC and its production factory is located in the overseas jurisdiction.

The management of entity A decided that for the purposes of its IFRS financial statements, its functional currency is FC. Entity A has a local currency (Ksh) bank account which is used to pay the salaries and expenses of head office management and various other head office cost. The balance in Entity A’s Ksh bank account as at 1 January 2019 was Ksh 25 Million.

1. Entity A paid Ksh 12.5 million in salaries from its Ksh account (spread evenly over the year)
2. On 31 August 2019, entity A acquired computers for its local offices for Ksh 600,000 paid on 30 September 2019.
3. The exchange rates between Ksh and FC during the year were:

Date	FCI = Ksh
1 January 2019	5.00
31 August 2019	5.10
30 September 2019	5.25
31 December 2019	5.40
Average for 2019	5.28

Required:

Statement of cash flows for the year ended 31 December 2019 (14 marks)
 (Hint: start by preparing the statement of income for the only transactions indicated above)

QUESTION THREE

- (a) Distinguish between a fair value hedge and a cash flow hedge, citing the accounting treatment for each. (6 marks)
- (b) Differentiate between monetary and non-monetary items as used in foreign currency translations. (6 marks)
- (c) On 24 December 2019, Green Ltd with a functional currency of Ksh. bought raw materials from a foreign supplier on credit for SAR 100,000. The entity paid the supplier on 17 January 2019. The entity has a financial year-end of 31 December 2018.

The spot exchange rates are as follows:

- 24 December 2018: Ksh 2 = 1 SAR
- 31 December 2018: Ksh 2.1 = 1 SAR
- 17 January 2019 Ksh 2.05 = 1 SAR

Required:

Journal entries to record transactions on initial recognition, at the entity’s year-end and on the transaction settlement day.

QUESTION FOUR

- (a) There is widespread recognition that in recent years the quality of International Financial Reporting Standards (IFRS) has improved enormously. However, International Accounting Standards Boards’ International Financial Reporting Standards is not without criticism. Explain any four criticisms labeled against International Financial Reporting Standards. (12 marks)
- (b) A dollar-based company, Beam Ltd, set up a foreign subsidiary on 30 June 2019. Beam Ltd subscribed €24,000 for share capital when the exchange rate was €2=\$1. The subsidiary, Brick ltd, borrowed €72,000 and bought an asset for €96,000. Beam Ltd prepared its accounts on 31 December 2019 and by that time the exchange rate had moved to €3=\$1. As a result of highly unusual circumstances, Brick ltd sold its asset early in 2020 for €96,000. It repaid its loan and was liquated. Beam’s capital of €24,000 was repaid in February 2020 when the exchange rate was €3=\$1.

Required:

Account for the above transactions as if the entity has a different functional currency from the parent. (8 marks)
