KABARAK UNIVERSITY

UNIVERSITY EXAMINATIONS

2009/2010 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ACCT 422

COURSE TITLE: INTERNATION ACCOUNTING

STREAM: Y4S2

DAY: MONDAY

TIME: 9.00 – 11.00A.M.

DATE: 02/08/2010

INSTRUCTIONS

1. Answer all questions in **section A** and two questions in **Section B.**
2. Answers should be very precise and concise
3. Marks are shown at the end of the question.

PLEASE TURNOVER

SECTION A
QUESTION ONE

(a) Explain the factors that should be considered in selecting a transfer price by
(b) multinational corporations with head-quarters in Kenya. **(6 marks)**

(b) Nairobi Diamonds Inc. Based in Nairobi has two divisions.

1. Luanda Mining Division-Operates a mine that has a rich body of raw diamonds in Angola.
2. Nairobi Processing Division-processes the raw diamonds into polished diamonds used in industrial applications.

The costs of the Luanda Mining Division are: -

- Variables costs, 2,000 pesos per 1b. of raw diamonds.
- Fixed costs, 4,000 pesos per 1b. raw diamonds.

Nairobi Diamonds Inc. has a corporate policy o f further processing in Nairobi all raw diamonds mined in Luanda, Angola. Several diamond-polishing companies in Kenya buy raw diamonds from other local mining companies at Ksh. 400 per pound. Assume that the current foreign exchange rate is 20 pesos = Ksh 1. The costs of Nairobi Processing Division are:

- Variable costs Ksh. 10 per 1b. of polished industrial diamonds.
- Fixed cost, Ksh. 6, 000 per 1b. of polished industrial diamonds.

Assume that it takes two pounds of raw diamonds to yield one pound of polished diamond. Polished diamonds sell for ksh. 40, 000 per lb

Required:

i. Compute the transfer price (in Ksh.) for one pound of raw diamonds transferred from the Luanda Mining Division to the Nairobi Processing Division under two methods:
   a) 250% of full cost **(2 marks)**
   b) Market price **(2 marks)**

ii. Assume a world of no income taxes. One thousand pounds of raw diamonds are mined by the Luanda Division and then processed and sold by the Nairobi processing Division. Compute the operating income (in Ksh.) for each division of Nairobi Diamonds Inc. under each transfer-pricing method in requirement (i) above. Comment on the overall operating income for whole company. **(10 marks)**

iii. Assume the corporate income tax rate is 20% in the Angola and 35% in the Kenya. Compute the after-tax operating income (in Ksh.) for each division under each transfer-pricing method in requirement (i) above. (. Nairobi Diamonds Inc. considers taxes already paid in Angola). **(6 marks)**

(Total 20 marks)

QUESTION TWO

a) Explain the meaning of the following terms as used in foreign transaction.

i. Non-monetary items **(2 marks)**

ii. Foreign currency **(2 marks)**

iii. Reporting currency **(2 marks)**

b) b) The Trial Balance of the Ugandan Branch of, home PLC, a Kenya co. as at 31-12-2008 was as follows:

	Dr Ushs.(Ugandan Shilling)	Cr. USHa.
Tangibe Fixed Assists (at cost)	282,000	
Provision for depreciation		53,400
Debtors	165,000	
Stock at 1/1/2008	140,000	
Creditors		130,000
Goods from head office (HO)	470,000	
Sales		720,000
Expenses	66,000	
Bank and Cash	90,000	
Head Office Current Account		309,000
Total	1,213,000	1,213,000

Fixed assets were acquired as follows:

	Cost Ushs. Ushs	Accumulated Depreciation	exchange rate
	84,000	8,400	Ksh. 1= Ush. 7
	198.000	45,000	Ksh. 1= Ush.9
Total per Trial Balance	282,000	53,400	

Exchange rates were:

	Ushs. = Kshs. 1
01-01-2008	7
31-12-2008	5
Average for 2008	6

In the head of office ledger, balances at 31/12/2008 included:

Goods to branch	Kshs. 80,000
Uganda Branch account	Kshs. 62,500

Required:
Translate the Uganda Branch trial Balance at 31-12-2008 into Kenya shillings using the temporal method and prepare the final accounts in Kenya shillings. **(14 marks)**
(Total 20 marks)

SECTION B

QUESTION 3

a) Explain the challenges facing harmonization of accounting standards. **(5 marks)**

b) Discuss the benefits of using international accounting standards in Kenya. **(10 marks)**

(Total 15 marks)

QUESTION 4

a) Describe any three approaches that multinational corporations take to accommodate their foreign readers and indicate the suitability of each. **(9 marks)**

b) Discuss three problems experienced by multinational corporations in reporting. **(6 marks)**

(Total 15 marks)

QUESTION 5

Discuss any five methods of performance evaluation followed by multinational corporations. **(15 marks)**