

**KABARAK**



**UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2009/2010 ACADEMIC YEAR**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: ACCT 422**

**COURSE TITLE: INTERNATIONAL ACCOUNTING**

**STREAM: Y4S2**

**DAY: FRIDAY**

**TIME: 2:00 – 4:00 P.M.**

**DATE: 04/12/2009**

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**Instructions**

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

## SECTION A

### QUESTION ONE

- a) Explain the meaning of the following terms as used in foreign transaction.
- (i) Monetary items
  - (ii) Foreign entity
  - (iii) Reporting currency
- b) The Trial Balance of the Ugandan Branch of Home PLC, a Kenya Co. as at 31 – 12 – 2002 was as follows:-

	Dr. Ushs. (Ugandan Shillings)	Cr. USHa
Tangible Fixed Assets (at cost)	282,000	
Provision of depreciation		53,400
Debtors	140,000	
Stock at 1/1/2002		130,000
Creditors	470,000	
Goods from head office (HO)		720,000
Sales	66,000	
Expenses	90,000	
Bank and cash		309,000
Head office Current Account		
Stock at 31/12/2002	1,213,000	1,213,000
Fixed assets were acquired thus	50,000	

Cost Ushs.	Accumulated Depreciation Ushs	Exchange rate on acquisition date
84,000	8,400	Kshs. 1 = Kshs. 7
<u>198,000</u>	<u>45,000</u>	Kshs. 1 = Kshs. 9
Total per <u>282,000</u>	<u>53,000</u>	
Trial Balance		

Exchange rates were:

	Ushs. = Kshs. 1
01 – 01 – 2002	7
31 – 12 – 2002	5
Average for 2002	6

In the head of office ledger, balances at 31/12/2002 included:

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

**Required**

Translate the Uganda Branch trial balance as at 31-12-2002 into Kenyan shillings using the temporal method and prepare the final accounts in Kenyan shillings.

(14 marks)

(Total 20 marks)

**QUESTION TWO**

Industrial Diamonds Inc. Based in Los Angeles has two divisions.

1. Philippine Mining Division – Operates a mine containing a rich body of raw diamonds.
2. U.S. Processing division – processes the raw diamonds into polished diamonds used in industrial applications.

The cost of the Philippine Mining Division are:-

- Variables costs, 2,000 pesos per lb. of raw industrial diamonds.
- Fixed costs, 4,000 pesos per lb. raw industrial diamonds.

Industrial Diamonds Inc. has a corporate policy of further processing in Los Angeles all raw diamonds mined in the Philippines. Several diamond – polishing companies in the Philippines buy raw diamonds from other local mining companies at 8,000 pesos per pound. Assume that the current foreign exchange rate is 20 pesos = US\$ (1 US dollar)

The cost of U.S Processing Division are:-

- Variable costs US\$ 100 per lb. of polished industrial diamonds.
- Fixed cost, US \$ 600 per lb. polished industrial diamonds.

Assume that it takes two pounds of raw industrial diamonds to yield one pound of polished industrial diamonds. Polished diamonds sell for \$4,000 per pound.

**Required**

- (a) Compute the transfer price (in \$U.S) for one pound of raw industrial diamonds transferred from the Philippine Mining Division to the U.S Processing Division under two methods:
  - (i) 300% of full cost
  - (ii) Market price (8mks)
- (b) Assume a world of no income taxes. One thousand pounds of raw industrial diamonds are mined by the Philippines Division and then processed and sold by the U.S. processing Division. Compute the operating income (in \$U.S) for each division of Industrial Diamonds Inc. under each transfer-pricing method in requirement (i) above. (8mks)
- (c) Assume the corporate income rate is 20% in the Philippines and 35% in the United States. Compute the after-tax operating income (in \$U.S.) for each division under market based transfer-pricing method in requirement (i) above. Industrial Diamond does not pay U.S taxes on income already taxed in the Philippines. (4mks)

(Total 20 marks)

## **SECTION B**

### **QUESTION THREE**

- a) State the problems hindering harmonization of accounting standards. (5mks)
  - b) Briefly explain the benefits of using international accounting standards in Kenya. (10mks)
- (Total 15 marks)

### **QUESTION FOUR**

- a) Describe any four approaches that multinational corporations take to accommodate their foreign readers and indicate the suitability of each. (10mks)
  - b) Discuss three problems experienced by multinational corporations in reporting. (5mks)
- (Total 15 marks)

### **QUESTION FIVE**

Discuss any five methods of performance evaluation followed by multinational corporations. (Total: 15mks)