

**KABARAK**



**UNIVERSITY**

**EXAMINATIONS**

**2008/2009 ACADEMIC YEAR**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: ACCT 422**

**COURSE TITLE: INTERNATIONAL ACCOUNTING**

**STREAM: Y4S2**

**DAY: WEDNESDAY**

**TIME: 2.00 – 4.00 P.M.**

**DATE: 25/03/2009**

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**INSTRUCTIONS:**

- Answer ALL Questions in Section A and any two questions in Section B
- Give precise and concise answers
- Marks are shown at the end of the question.

**PLEASE TURN OVER**

## SECTION A

### QUESTION ONE

Pearl Diamonds inc. Based in London has two divisions.

1. Kenya division-Operates a mine containing a rich body of raw diamonds.
2. U.K. Processing Division-processes the raw diamonds into polished diamonds used in industrial applications.

The cost of the Philippine Mining Division are

- Variable costs: 6,000 pesos per Ib. of raw industrial diamonds.
- Fixed costs: 8,000 pesos per Ih. Raw industrial diamonds.

Pearl Diamonds Inc. has a corporate policy of further processing in London a 11 raw diamonds mined in the Kenya. Several diamond-polishing companies in the Kenya buy raw diamonds from other local mining companies at Ksh.16,000 per pound. Assume that the current foreign exchange rate is Ksh.120 = 1U.K Poubd (£). The costs of U.K Processing Division are:-

- Variable costs: U.K.£2,000 per Ib. of polished industrial diamonds.
- Fixed cost: U.K£1,200 per Ib. of polished industrial diamonds

Assume that it takes two pounds or raw industrial diamonds to yield one pound of polished industrial diamonds. Polished diamonds sell at U.K£8,000 per pound.

#### **Required:**

- i) Compute the transfer price (in £) for one pound of raw industrial diamonds transferred from Kenya Mining Division to the U.K Processing Division under two methods.
  - a) 200% of full cost (4mks)
  - b) 300% of Variable cost (4mks)
- ii) Assume a world of no income taxes. Two thousand pounds of raw industrial diamonds are mined bu the Kenya Division and then processed and sold by the U.K processing Division. Compute the operating income (in £) for each division of Pearl Diamonds Inc. Under each transfer-pricing method in requirement (i) above. (8mks)
- iii) Assume the corporate income tax rate is 20% in the Kenya and 35% in the United Kingdom. Compute the after-tax operating income (in £) for each division under each transfer-pricing method in requirement (i) above. (Income taxes are not included in the computation of the cost based transfer price. Pearl Diamond does not pay U.K taxes on income already taxed in Kenya). (4mks)

**(TOTAL: 20 MARKS)**

**QUESTION TWO**

- a) Explain the factors behind the rapid growth and focus to international accounting in Kenya as well as other developing countries. (6mks)
- b) The following is the trial balance of Kenga Ltd's Tanga Branch, Tanzania as at 30/06/08:

	Dr. Tsh.	Cr. Tsh.
Fixed assets (at cost)	564,000	
Accumulated depreciation		106,800
Debtors	330,000	
Opening stock	280,000	
Creditors		261,200
Goods from H/O	940,000	
Sales		1,440,000
Expenses	132,000	
Bank	180,000	
H/O Current Account	<u>                    </u>	<u>618,000</u>
<b>Total</b>	<b><u>2,426,000</u></b>	<b><u>2,426,000</u></b>

Stock at 30-06-2008                      Tsh.      100,000

Fixed assets were acquired thus:

	Cost Tsh.	Accumulated Depreciation	Exchange rate
	168,000	16,800	Tsh1=Kshs.20
	<u>396,000</u>	<u>90,000</u>	Tsh.1=Ksh.22
Total per Trial balance	564,000	106,800	

Exchange rates were

	Tsh 1 = Kshs.
01-07-2007	20
30-06-2008	16
Average for July 2007-June 08	18

In the head of office ledger, balances at 30/06/08 included:

Goods to branch	Kshs.160,000
Cape Town Branch account	Kshs.125,000

**Required:**

Translate the Tanga Branch Trial Balance at 30/06/08 into Kenyan Shillings using the temporal method and prepare the final accounts in Kenya Shillings. (14mks)

**(TOTAL: 20 MARKS)**

## **SECTION B**

### **QUESTION THREE**

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

### **QUESTION FOUR**

Discuss any five ways that multinational corporations use to accommodate their foreign readers who share language and indicate the suitability of each. (15mks)

### **QUESTION FIVE**

- a) Explain the factors that hinder full harmonization of accounting standards for most of the countries in the world today. (10mks)
- b) Briefly explain the benefits of using international accounting standards in Kenya. (5mks)

**(TOTAL: 15 MARKS)**