KABARAK UNIVERSITY

UNIVERSITY EXAMINATIONS

2010/2011 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: **18/03/2011**

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 meaning of the following terms as used in foreign transaction.

i. Monetary items **(2 marks)**
ii. Foreign entity **(2 marks)**
iii. Reporting currency **(2 marks)**

b) b) The Trial Balance of the Ugandan Branch of, home PLC, a Kenya co. as at 31-12-2010 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 thus

	Cost	Accumulated Depreciation	Exchange rate
	Ushs	Ushs	Ksh. 1= Ush. 7
	84,000	8,400	
	198,000	45,000	Ksh. 1= Ush.9
Total per Trial Balance	**282,000**	**53,400**	

Exchange rates were:

	Ushs. = Kshs. 1
01-01-2010	7
31-12-2010	5
Average for 2010	6

In the head of office ledger, balances at 31/12/2010 included:

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

Required:

Translate the Uganda Branch trial Balance at 31-12-2010 into Kenya shillings using the temporal method and prepare the final accounts in Kenya shillings. **(14 marks)**

(Total 20 marks)

QUESTION TWO

Solution Diamonds Inc. Based in Nairobi has two divisions.

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

The costs of the Maputo Mining Division are: -

i. Variables costs, 2,000 pesos per 1b. of raw diamonds.
ii. Fixed costs, 4,000 pesos per 1b. raw industrial diamonds.

Solution Diamonds Inc. has a corporate policy o f further processing in Nairobi all raw diamonds mined in the Maputo, Malawi. Several diamond-polishing companies in the Malawi buy raw diamonds from other local mining companies at 8,000 pesos per pound. Assume that the current foreign exchange rate is 20 pesos = Ksh 1. The costs of Nairobi Processing Division are:

i. Variable costs Ksh 10 per 1b. of polished industrial diamonds.
ii. 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 industrial diamonds. Polished diamonds sell for ksh40, 000 per pound.

Required:

i. Compute the transfer price (in Ksh.) for one pound of raw industrial diamonds transferred from the Maputo Mining Division to the Nairobi Processing Division under two methods:

   a. 300% of full cost **(4 marks)**
   b. Market price **(4 marks)**

ii. Assume a world of no income taxes. One thousand pounds of raw industrial diamonds are mined by the Maputo Division and then processed and sold by the Nairobi processing Division. Compute the operating income (in Ksh.) for each division of Solution Diamonds Inc. under each transfer-pricing method in requirement (i) above. **(8 marks)**

iii. Assume the corporate income tax rate is 20% in the Malawi 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. (Income taxes are not included in the computation of the cost based transfer price. Solution Diamonds does not pay Kenya taxes on income already taxed in the Malawi). **(4 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.

(Total: 15 marks)