Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
THIRD YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 5th December, 2023
Time: 8.30am –10.30am

KAC 304 -INTERNATIONAL ACCOUNTING

INSTRUCTIONS TO CANDIDATES

ANSWER **QUESTION ONE (COMPULSORY)** AND **ANY OTHER TWO** QUESTIONS

QUESTION ONE (30 MARKS)

a) Explain the reasons for the change from the Kenya accounting standards to the international standards. (4 marks)

b) Describe the two methods of translating the financial statements of foreign operations into presentation currency of the reporting entity. (4 marks)

c) Highlight circumstances under which stamp duty can be refunded. (4 marks)

d) Mombasa Limited has two divisions, A and B. Each of the two divisions produces a single product whose unit costs are as follows:-

Division	**A (shs)**	**B(shs)**
Direct material	60	230
Direct labour	40	30
Variable overheads	60	120
Fixed overheads	40	120
Selling and packaging (variable)	10	10
Transfer in cost (from division M)	-	290
TOTAL	**210**	**800**

Additional Information

i) Annually 10,000 units of division A's product are sold externally at a standard price of shs 300 while 5000 units are transferred to Division B at sh290 after deducting the selling and packaging expense which is not incurred during internal transfers.

ii) A recent study of the demand and sales relationship of the company's product by the company's product by the sales division of the company produced the following results:

Division A			
Selling Price (shs)	200	300	400
Demand (units)	15000	10000	5000

Division B			
Selling Price (shs)	800	900	1000
Demand (units)	7200	5000	2800

iii) The manager of Division B has suggested that transfer from A should be made at Sh 120 which represent the variable costs plus a minimum mark-up since division B is taking output that Division A would not be able to sell externally at a price of sh 300. He also explains that this would lead to improved profitability of the company.

Required;

i) The effect of the current price of the company's profit. (12 marks)

ii) The effect of adopting Division B manager's proposed transfer price on the profitability of the company (6 marks)

QUESTION TWO (20 MARKS)

a) Explain the objectives of hedging accounting and it help to improve the transparency of financial statements. (10 marks)

b) Malimali Ltd presents its financial statements Using Kenya Shillings (kshs). On 1st November 2016, Malimali Ltd purchased goods worth US dollars 30,000 from a foreign supplier and paid US dollars 20,000 on 1st December 2016.The balance due to the supplier as at 31st December 2016 was US dollar 10,000.
The exchange rates of the two currencies are as follows

Date	Kshs/ 1 US DOLLAR
1/11/16	90
1/12/16	92
31/12/16	93

Required;

i) Calculate the exchange difference to be recognized in the financial statements of Malimali Ltd. (7 marks)

ii) Explain how the exchange difference above will be recognized in the financial statements of Malimali Ltd. (3 marks)

QUESTION THREE (20 MARKS)

a) Explain the objectives of transfer pricing.

(5 marks)

b) Describe five qualitative characteristics of financial statements.

(5 marks)

c) A Kenyan company has a liability of USD 100,000 on account of credit purchase from a US supplier. This liability is payable in 30 days. The relevant money market rates are 1% for lending and 1.5 % for borrowing over a 30 days period. Assume the spot rate is sh 80 to the dollar.

Required;

Explain the appropriate hedging strategy that the Kenyan company should use.

(10 marks)

QUESTION FOUR (20 MARKS)

a) Discuss challenges facing financial managers in multi-national corporations.

(8 Marks)

b) Rongai Ltd has just finished its first year of trading to 31 December 2013. Corporation tax throughout was 35% and income tax 25%. You are given the following information

i) Net trading profit, after adjustment for(ii) But before other adjustment was shs 22000
ii) Depreciation of shs 50000 was charged in the accounts. Capital allowances amounting to sh 90000.
iii) An interim dividend of 5% on 400000 sh 1 ordinary shares was paid on 1 July 2013.
iv) Debenture interest of sh 9600 (net) was paid on 31 December 2013.
v) Income tax deducted from debenture interest was paid on 31 January 2013.
vi) A final dividend of 7.5 percent was proposed for the year
vii) Corporation tax for the year was estimated to be sh 90,000

Required;

i) Draw up the double entry accounts recording the above.

(6 Marks)

ii) Show the relevant extract from the income statement.

(6 Marks)

QUESTION FIVE (20 MARKS)

a) Nyota Limited a Kenyan based MNC is evaluating an overseas investment proposal. The project will entail an initial outlay of dollar $ 100m and this is expected to generate the flowing cash flows over the useful life.

Year	Cash flows ($ Million)
1	30
2	40
3	50
4	60

Assume that the spot rate today is sh. 78 to the dollar and the risk free rate in Kenya is 11% whereas in the US it's 60% and Nyota Ltd requires a rate of return of 15% on projects of this kind.

Required

Using the NPV technique (home currency approach) should the project be accepted?

(10 marks)

b) Discuss factors multinational corporations consider in international transfer pricing.

(10 marks)