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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR

THIRD YEAR, SECOND SEMESTER EXAMINATION

FOR THE DEGREE OF BACHELOR OF SCIENCE

(BUSINESS ADMINISTRATION)

Date: 5th December, 2019

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 meaning and the significance of the following

i) Accounting concepts (2 Marks)

ii) Accounting policies (3 Marks)

iii) Accounting standards (3 Marks)

b) Mombasa limited presents its financial statements. Using Kenya Shillings (shs). On 1st November 2004, Mombasa Ltd purchased goods worth 30,000 US dollars from a foreign trader and paid US dollar 20,000 on 1st December 2004. The balance due to the trade as at 31/12/2004 was US Dollar 10,000

c) The exchange rates of the two currencies are as

Date	1 US Dollar / Kshs
1/11/2004	90
1/12/2004	92
31/12/2004	93

Required

i) Compute the exchange difference to be recognized in the financial statements of Mombasa Ltd. (8 Marks)

ii) Explain how the exchange difference above will be recognized in the financial statements. (6 Marks)

d) Differentiate between

i) Spot rate and exchange rate (2 Marks)

ii) Foreign currency and functional currency (2 Marks)

iii) Monetary items and non-Monetary items (2 Marks)

iv) Presentation currency and foreign operation (2 Marks)

QUESTION TWO (20 MARKS)

a) Venture ltd a Kenyan based NNC is evaluating an overseas investment proposal. The project will entail an initial outlay of 100m and this is expected to generate the following cash flow over the useful life.

Year	**cash flows in millions**
1	30
2	40
3	50
4	60

Assume that the spot rate today shs 78 to the dollar and the risk free rate in Kenya is 11% whereas in the US its 60% and venture 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)

QUESTION THREE (20 MARKS)

a) Outline reasons for the change from the Kenya Accounting Standards to the International Standards. What is the procedure for development of IAS and what are the benefits to the accountants and the country as a whole. (10 Marks)

b) A Kenyan company has a liability of 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 sport 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 management (Finance Managers) in multinational corporations operations.

(10 Marks)

b) Rongai Ltd has just finished its first year of trading to 31 December 1993. 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 1993.
iv) Debenture interest of sh 9600 (net) was paid on 31 December 1993.
v) Income tax deducted from debenture interest was paid on 31 January 2004
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 (5 Marks)

ii) Show the relevant extract from the income statement (5 Marks)

QUESTION FIVE (20 MARKS)

a) Explain the objectives hedging accounting and how this objectives help to improve the transparency of financial statements. (7 Marks)

b) Jambo Limited has two divisions, M and N. Each of the two divisions produces a single product whose unit costs are as follows:-

Division	**M (shs)**	**N (shs)**
Direct material	40	230
Direct labour	20	30
Variable overheads	40	120
Fixed overheads	40	120
Selling and packaging (variable)	10	10
Transfer in cost (from division M)	-	290
TOTAL	**150**	**800**

Additional Information

i) Annually 10,000 units of division M's product are sold externally at a standard price of shs 300 while 5000 units are transferred to Division N 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 M			
Selling Price (shs)	200	300	400
Demand (units)	15000	10000	5000

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

iii) The manager of Division N has suggested that transfer from M should be made at Sh 120 which represent the variable costs plus a minimum mark-up since division N is taking output that Division M 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 (8 Marks)

ii) The effect of adopting Division N manager's proposed transfer price on the profitability of the company. (5 Marks)