



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, 2019/2020 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 8th April, 2019
Time: 2.30pm – 4.30pm

KAC 304 - INTERNATIONAL ACCOUNTING

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) 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)
- 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

- 1. The effect of the current price of the company’s profit (9 Marks)
- 2. The effect of adopting Division N manager’s proposed transfer price on the profitability of the company (5 Marks)
- c) Explain the meaning and the significance of the following
 - i) Accounting concepts (2 Marks)
 - ii) Accounting policies (3 Marks)
 - iii) Accounting standards (3 Marks)

QUESTION TWO (20 MARKS)

- a) 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

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 (4 Marks)
- b) Discuss factors multinational corporations consider in international transfer pricing (8 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. (10 Marks)
- b) Discuss circumstances under which stamp duty can be refunded. (10 Marks)