

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
FINAL YEAR FIRST SEMESTER EXAMINATION IN BACHELOR OF COMMERCE
HONOURS IN ACCOUNTING AND FINANCE 2021 / 2022 (FEBRUARY 2024)
(PROPER / REPEAT)
DAF 4153 INTERNATIONAL ACCOUNTING

Answer all questions
 Calculator is allowed

No. of Pages: 04
 Time: 03 Hours

Question 01.

- (i) The Financial Statement of a Philippines subsidiary of a U.S. based multinational company appears in Peso in the first column. The second column depicts the U.S. dollar equivalents of the Philippines Pesos (PHP) balances when the exchange rate was $\text{PHP1} = \$0.03$.

Philippine Subsidiary Statement of Financial Position

Assets	Peso	US \$
Cash	500,000	15,000
Accounts Receivables	1,000,000	30,000
Inventories	900,000	27,000
Non-current assets (net)	1,100,000	33,000
Total	3,500,000	105,000
Liabilities and Equity		
Payables	400,000	12,000
Long term debt	800,000	24,000
Equity	2,300,000	69,000
Total	3,500,000	105,000

Should the Peso depreciate to $\text{PHP1} = \$0.02$

You are required to prepare the statement of financial position and calculate the accounting exposure on the following methods:

- a. Current rate
- b. Current- Noncurrent rate
- c. Monetary – Nonmonetary
- d. Temporal

(10 Marks)

(ii) Anthes Company borrowed 1,500,000 Turkish lire (TL) on January 1, 2022, at an annual interest rate of 50 percent by signing a two-year note payable. During 2022, the Turkish inflation index changed from 260 on January 1 to 357.5 on December 31. Related to this note payable, determine the following amounts for Anthes Company for 2022:

- a. Nominal interest expense.
- b. Monetary gain (purchasing power gain) on the borrowing.
- c. Real interest expense
- d. What is the real interest rate paid by Anthes Company 2022 on its note payable?

(10 Marks)

(Total 20 Marks)

Question 02.

(i) Doner Company Inc. begins operations on January 1, 2023. The company's unadjusted Financial Statements for December 31, 2023, appears as follows:

Statement of Financial Position	1/1/2023	31/12/2023
Cash and receivables	\$20,000	\$35,000
Fixed assets, net	50,000	45,000
Total	\$70,000	\$80,000
Payables	\$15,000	\$15,000
Contributed capital	55,000	55,000
Retained earnings	-	10,000
Total	\$70,000	\$80,000

Income Statement, 2023

Revenues	\$50,000
Depreciation	(5,000)
Other expenses	(35,000)
Income	\$10,000

Revenues and expenses occur evenly throughout the year; revenues and other expenses are realized in terms of monetary assets (cash and receivables).

General Price indexes for 2023 are as follows;

1/1/2023.....	100
Average 2023.....	120
12/31/2023.....	150

Required:

- a. Calculate Doner Company's 2023 purchasing power gain or loss on net monetary items.
- b. Determine the Doner Company's 2023 income on a general purchasing power basis (ignore income taxes).

(10 Marks)

- (ii) Describe the structure of the International Accounting Standards Board.

(05 Marks)

- (iii) Explain spot, forward, and swap markets with examples.

(05 Marks)

(Total 20 Marks)

Question 03.

- (i) What is meant by tax haven? Explain the four factors listed by the Organization for Economic Cooperation and Development (OECD) for identifying a tax haven.

(05 Marks)

- (ii) Briefly describe the historical-cost-constant purchasing power and current-cost models. How are they similar? How do they differ?

(06 Marks)

- (iii) Distinguish between the terms "Harmonization" and "Convergence" as they apply to the accounting standards.

(06 Marks)

- (iv) What does double-dipping mean in accounting for foreign inflation?

(03 Marks)

(Total 20 Marks)

Question 04.

- (i) What are the two broad objectives for investor-oriented markets? Explain.

(03 Marks)

- (ii) What is an advance pricing agreement (APA)? What are the advantages and disadvantages of entering into an APA?

(06 Marks)

- (iii) Bush Inc. has a total income of \$500,000. Bush's Polish branch has a foreign source income of \$200,000 and paid taxes of \$38,000 to the Polish government. the U.S. corporate tax rate is 35%. What is Bush's overall foreign tax credit limitation?

(05 Marks)

(iv) Compare and contrast the mechanisms for regulating and enforcing financial reporting in the European Countries.

(06 Marks)

(Total 20 Marks)

Question 05.

(i) What are the four main steps in doing a business strategy analysis using financial statements? Why each step is analysis in a cross-border context more difficult than a single-country analysis?

(08 Marks)

(ii) What are the major problems caused by worldwide accounting diversity for a multinational corporation?

(04 Marks)

(iii) Distinguish between the terms "Standard Cost Concept" and "Kaizen Cost Concept".

(04 Marks)

(iv) Explain the term global capital markets. How important are global capital markets in the world economy?

(04 Marks)

(Total 20 Marks)