

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
FINAL YEAR - FIRST SEMESTER EXAMINATION IN BACHELOR OF COMMERCE
HONOURS IN ACCOUNTING AND FINANCE 2017 / 2018 (JANUARY 2020)

(PROPER/ REPEAT)

DAF 4033 INTERNATIONAL ACCOUNTING

Answer all questions

Time: 03 Hours

01. i. Moveup company is foreign subsidiary, of US based multinational corporation, located in Italy, whose functional currency is the Euro. Comparative financial Statements for Moveup company is as follows.

Historical Cost Financial Statements of Moveup company (in thousands)

	2018	2019
Balance Sheet		
Cash	Euro 2,500	Euro 5,100
Equipment, net	<u>4,000</u>	<u>3,500</u>
Total Assets	Euro <u>6,500</u>	Euro <u>8,600</u>
Current Liabilities		
Long – Term Debt	Euro 1,000	Euro 1,200
Owner's Equity	<u>2,500</u>	<u>3,400</u>
Total Equity	Euro <u>6,500</u>	Euro <u>8,600</u>
Income Statement		
Revenue		Euro 10,000
Operating Expenses	Euro 7,700	
Depreciation	500	
Other	<u>900</u>	<u>9,100</u>
Net income		900
Owners' equity 2018		<u>2,500</u>
Owners' equity 2019		Euro <u>3,400</u>

Exchange rate and general price level information are shown below.

Exchange Rates

12/31/2018	Euro 1.800 = \$1
Average for 2019	Euro 1.875 = \$1
12/31/2019	Euro 1.950 = \$1

General Price Level Indexes

	Italy	United States
12/31/2018	200	130
Average for 2019	215	134
12/31/2019	230	138

Moveup company has equipment but no inventory. The equipment was acquired at the beginning of the 2018 and is being depreciated in straight line fashion with a useful of 10 years and no salvage value. No equipment was acquired or disposed of during the year. The current cost of the equipment at year end is as follows.

	2018	2019
Current cost	Euro 8,000	Euro 1,1000
Accumulated Depreciation	<u>(800)</u>	<u>(2,200)</u>
Net current cost	Euro <u>7,200</u>	Euro <u>8,800</u>

Required to calculate followings under the Translate Restate Method:

- Current cost-based equity on 12/31/2018
- Current based income
- Purchasing power gain
- Increase in current cost of equipment, net of inflation

(15 Marks)

- From user's perspective, what is the inherent problem in attempting to analyze historical cost based financial statements of a company domiciled in an inflationary devaluation prone country?

(05 Marks)

(Total 20 Marks)

02. i. What is the difference between a transaction gain or loss and a translation gain or loss?

(05 Marks)

ii. On January 1, the wholly-owned Indian affiliate of an England parent company acquired an inventory of mobile phone parts for its assembly operation. The cost incurred was ₹ 15,000,000 when the exchange rate was ₹ 113 = £1. By year end, the Indian affiliate had used three-fourths of the acquired mobile phone parts. Due to advances in mobile phone technology, the remaining inventory was marked down to its net realizable value of ₹ 1,750,000. The year-end exchange rate was ₹ 123 = £1. The average rate during the year was ₹ 118 = £1.

Required:

- a. Translate the ending inventory to England pound assuming the Indian affiliate's functional currency is the Indian rupees.
- b. Would your answer change if the functional currency were the England pound? Explain.

(06 Marks)

iii. What is swap? Explain with practical example.

(05 Marks)

iv. Describe the structure of the International Accounting Standards Board and how it sets International Financial Reporting Standards.

(04 Marks)

(Total 20 Marks)

03. i. How is international accounting distinct from domestic accounting?

(05 Marks)

ii. What are the factors influences on accounting development? How each one affects accounting practice?

(05 Marks)

- iii. Assume that a parent corporation in US, subject to a 30% corporate income tax, earns 100 US \$ and distributes a 100% dividend to its sole shareholder, who is in the 20% tax bracket. Further assume that shareholders receive a tax credit equal to 15% of dividends received. Based on these assumptions, Calculate the total taxes paid.

(06 Marks)

- iv. How do cultural values influence on accounting practices?

(04 Marks)

(Total 20 Marks)

04. i. Explain the term global capital markets. How are global capital markets important in the world economy?

(05 Marks)

- ii. Describe the impact on accounting analysis of cross-country variations in accounting measurement and disclosure practices.

(05 Marks)

- iii. What are major differences between standard costing and kaizen costing concepts?

(05 Marks)

- vi. Once foreign exchange exposures are quantified, the next step is to design hedging strategies that minimize or eliminate exposures. Briefly explain following hedges.

- a. Balance sheet hedges
- b. Operational hedges

(05 Marks)

(Total 20 Marks)

05. i. Why do some EU countries prohibit IFRS in individual company financial statements while others permit or require IFRS at the individual company level?

(05 Marks)

ii. Explain the mechanisms for regulating and enforcing financial reporting in United States.

(05 Marks)

iii. What is corporate governance? Listed companies in some countries are required to disclose information about their corporate governance practices. Why might investors and analysts find such information useful?

(05 Marks)

iv. What is the difference between voluntary disclosure and mandatory disclosure? Provide at least two explanations for managers' voluntary disclosure practices and mandatory disclosure practices.

(05 Marks)

(Total 20 Marks)