

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
FINAL YEAR - FIRST SEMESTER EXAMINATION IN BACHELOR OF COMMERCE
HONOURS IN ACCOUNTING AND FINANCE 2018 / 2019 (AUGUST 2020)

(PROPER/ REPEAT)

DAF 4033 INTERNATIONAL ACCOUNTING

Answer all questions

Time: 03 Hours

01. i.

Case Study: In the Green

JK works in the financial reporting section of a large U.S. pharmaceutical company. The company has recently committed to “go green” and JK’s boss wants to add some environmental disclosures in the company’s annual report. JK is charged with recommending the contents of the environmental disclosure. In his research, JK learns that U.S. companies have generally lagged European companies in environmental reporting, but that more and more U.S. companies are now disclosing environmental matters. He believes that his company should at least “match the competition” in the disclosures it makes.

Required:

- a. Discuss why financial statement users find environmental disclosures informative.

(06 Marks)

- b. Describe the environmental disclosures that JK should recommend his company make comparing with GRI environmental performance indicators.

(07 Marks)

- ii. 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?

(07 Marks)

(Total 20 Marks)

02. GlobalSupper is a U.S.-based company which forms a wholly owned subsidiary in France (Moveup) on December 31, 2018. On that date, GlobalSupper invests \$1,000,000 in exchange for all of the subsidiary's capital stock. Given the exchange rate of €1.00 = \$1.00, the initial capital investment is €1,000,000, of which €600,000 is immediately invested in inventory and the remainder is held in cash. Thus, Moveup begins operations on January 1, 2019 with stockholders' equity (net assets) of €1,000,000 and net monetary assets of €400,000. Moveup's beginning balance sheet on January 1, 2019 is shown below.

Moveup			
Beginning Statement of Financial Position			
January 1, 2019			
Assets	€	Liabilities and Equity	€
Cash	400,000	Capital stock	<u>1,000,000</u>
Inventory	<u>600,000</u>		
	<u>1,000,000</u>		<u>1,000,000</u>

During 2019, Moveup purchased property and equipment, acquired a patent, and made additional purchases of inventory, primarily on account. A five-year loan was negotiated to help finance the purchase of equipment. Sales were made, primarily on account, and expenses were incurred. Income after taxes of €825,000 was generated with dividends of €325,000 declared on December 1, 2019.

Financial statements for 2019 (in euros) are as follows.

Income Statement	
2019	
	€
Sales	8,000,000
Cost of goods sold	6,000,000
Gross profit	2,000,000
Selling and administrative expenses	500,000
Depreciation expense	200,000
Amortization expense	20,000
Interest expense	180,000
Income before income taxes	1,100,000
Income taxes	275,000
Net income	825,000

Statement of Retained Earnings
2019

	€
Retained earnings, 1/1/2019	0
Net income, 2019	825,000
Less: Dividends, 1/12/2019	<u>(325,000)</u>
Retained earnings, 31/12/2019	<u>500,000</u>

Statement of Financial Position
December 31, 2019

Assets	€	Liabilities and Equity	€
Cash	550,000	Accounts payable	<u>330,000</u>
Accounts receivable	600,000	Total current liabilities	330,000
Inventory*	<u>800,000</u>	Long-term debt	<u>2,000,000</u>
Total current assets	1,950,000	Total liabilities	2,330,000
Property and equipment	2,000,000	Capital stock	1,000,000
Less: Accumulated depreciation	(200,000)	Retained earnings	500,000
Patents, net	<u>80,000</u>		
Total assets	<u>3,830,000</u>	Total Liabilities and Equity	<u>3,830,000</u>

* Inventory is carried at first-in, first-out (FIFO) cost; ending inventory was acquired evenly throughout the month of December.

Relevant exchange rates are as follows:

January 1, 2019	\$1.00
Rate when property and equipment were acquired and long-term debt was incurred, January 15, 2019	0.98
Rate when patent was acquired, February 1, 2019	0.97
Average 2019	0.95
Rate when dividends were declared, December 1, 2019	0.92
Average for the month of December	0.91
December 31, 2019	0.90

Required:

a. Translate Financial Statements of Moveup into US dollar by applying Current Rate Method.

(10 Marks)

b. Translate Financial Statements of Moveup into US dollar by applying Temporal Method.

(10 Marks)**(Total 20 Marks)**

03. i. What is a financial future contract? How does it differ from a forward exchange contract?

(04 Marks)

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

(05 Marks)

iii. As an employee on the financial staff of Multinational Enterprises, you are assigned to a three-person team that is assigned to examine the financial feasibility of establishing a wholly owned manufacturing subsidiary in the Czech Republic. You are to compute an appropriate hurdle (discount) rate with which to conduct a discounted cash flow analysis. List all the parameters you would consider in measuring your company's cost of capital (discount rate).

(05 Marks)

iv. Bay City Rollers Inc., a U.S. company, has a branch located in Sao Antonio and another in the Bahian Islands. The foreign source income from the Sao Antonio branch is \$150,000, and the foreign source income from the Bahian Island branch is \$225,000. The corporate tax rates in Sao Antonio, the Bahian Islands, and the United States are 30 percent, 24 percent, and 35 percent, respectively.

Required:

Determine Bay City Rollers' (a) U.S. foreign tax credit and (b) net U.S. tax liability related to these foreign sources of income.

(06 Marks)**(Total 20 Marks)**

04. i. Accounting may be viewed as having three components: measurement, disclosure, and auditing. What are the advantages and disadvantages of this classification? Can you suggest alternative classifications that might be useful?

(05 Marks)

ii. What contemporary factors are contributing to the internationalization of the subject of accounting?

(05 Marks)

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

(05 Marks)

vi. Countries that have relatively conservative measurement practices also tend to be secretive in disclosure, while countries that have less conservative measurement practices tend to be transparent in disclosure. Why is this so?

(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?

(06 Marks)

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

(06 Marks)

iii. Sorocaba Company is located in a highly inflationary country and in accordance with IAS 29 prepares financial statements on a general purchasing power (inflation-adjusted) basis through reference to changes in the general price index (GPI). The company had the following transactions involving machinery and equipment in its first two years of operations:

Date	Transaction	Cost	Useful Life	GPI
January 15, 2018	Purchase Machine X	\$ 20,000	4 years	100
March 20, 2018	Purchase Machine Y	\$ 55,000	5 years	110
October 10, 2018	Purchase Machine Z	\$ 130,000	10 years	130
December 31, 2018				140
April 15, 2019	Sold Machine X			160
December 31, 2019				180

Required:

Determine the amount that would be reported as machinery and equipment in accordance with IAS 29 on the December 31, 2018, and December 31, 2019, in the balance sheets of the company.

(08 Mar)

(Total 20 Mar)