EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

FINAL YEAR - FIRST SEMESTER EXAMINATION IN BACHELOR OF COMMERCE (SPECIALIZATION IN ACCOUNTING AND FINANCE) 2016 / 2017 (JANUARY 2019)

(PROPER/ REPEAT)

DAF 4033 INTERNATIONAL ACCOUNTING

Answer all questions **Time: 03 Hours**

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01. i. What is market risk? Illustrate it with a foreign exchange.

(05 Marks)

ii. What is tax neutrality? Are taxes neutral with regard to business decisions? Is this good or bad?

(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.

(05 Marks)

iv. On August 1, 2018, a U.S. manufacturer sells, on account, goods to an Indian importer for ₹ 2 million Indian Rupees. The dollar/Rupee exchange rate is \$1 = ₹ 60, the Rupee receivable are due in three months, and the U.S. company operates on a calendar-year basis. The Rupee begins to depreciate before the receivable is collected. By the end of the month, the dollar/rupee exchange rate is \$1 = ₹ 63. On November 1, 2018, it is \$1 = ₹ 67.

Required

Pass the journal entries for single transaction perspective and two transaction perspective.

(05 Marks)

(Total 20 Marks)

02 i. What is sustainability reporting, and why is it a growing trend amo multinational corporations?

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

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ii. Following information has been extracted from the financial statement of MOVE PLC:

Assets	Cost Rs.	Accumulated Depreciation Rs.	Net Value Rs.
Motor Vehicle	72,000	12,000	60,000
Premises	200,000	80,000	120,000
			180,000

The Motor Vehicle was purchased when the general price index was 14 Premises were acquired when it was 100.

Required

Restate the amount of the assets when the present price index is 160.

(06 M

iii. From the following information restate the cost of goods sold according to HCA CPP methods, presuming that the firm is using FIFO method for pricin inventories:

	¥
Inventories on 1 January , 2018	1,200
Purchasing during 2018	14,000
Inventories on 31 December, 2018	3,400

The above information has been given on Historical Cost basis. The price inde the beginning of 2018 was 100 while at the end of 2018, it was 180. The inven on 31 December, 2018 consist of purchases made when the price index was The purchases were made uniformly during the year.

(06 Mar

(Total 20 Mar

03. i. Distinguish between the terms "harmonization" and "convergence" as they apply to accounting standards.

(05 Marks)

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

(05 Marks)

iii. The Statement of Financial Position of a hypothetical Mexican subsidiary of a U.S. based multinational enterprise appears in pesos in the first column. The second column depicts the U.S. dollar equivalents of the Mexican peso (P) balances when the exchange rate was P1=$0.13.

Mexican subsidiary Income statement

Details	Pesos	US $
Sales	40,000	5,200
Cost of sales	20,000	2,600
Depreciation	1,800	234
Other expenses	8,000	1,040
Pre-tax income	10,200	1,326
Income Tax (30%)	3,060	(398)
Net income	**7,140**	**928**

Mexican subsidiary Statement of Financial Position

Assets	Pesos	US $
Cash	3,000	390
Account Receivables	6,000	780
Inventories	9,000	1,170
Noncurrent assets (net)	18,000	2,340
Total	**36,000**	**4,680**
Liabilities and Equity		
Payables	9,000	1,170
Long term debt	12,000	1,560
Equity	15,000	1,950
Total	**36,000**	**4,680**

Should the peso depreciate to P1=$0.10.

You are required to prepare income statement and statement of financial posi[illegible] the following methods:

a) Current rate
b) Current- Non current rate
c) Monetary – Nonmonetary
d) Temporal

(10 M

(Total 20 M

04. i. Explain how international accounting differs from purely domestic accounting.

(05 M

ii. Outsourcing, especially from vendors located abroad, has become a poli[illegible] sensitive issue, especially in the United States. Do you think this argume[illegible] merit? What are the consequences of this debate for international accounting?

(05 M

iii. Economic, socio historical, and institutional factors are believed to influen[illegible] accounting development. Explain how each one affects accounting practice.

(05 M

iv. Countries that have relatively conservative measurement practices also tend [illegible] secretive in disclosure, while countries that have less conservative measure[illegible] practices tend to be transparent in disclosure. Why Is this so?

(05 M

(Total 20 M

05. i. In France, financial accounting standards and practices originate primarily [illegible] three authoritative sources: (a) companies legislation, (b) professional opinions [illegible] recommendations and (c) stock exchange regulations. Which of these three ha[illegible] greatest influence on day to day French accounting practice?

(05 M

ii. Both China and the Czech Republic are restructuring their economies from ce[illegible] planning to more of a market orientation. What are the similarities and differences [illegible] the approaches each country is taking in embracing market reforms?

(05 M

iii. Energy Star Corporation manufactures a product that is marketed in North America, Europe and Asia. Its total manufacturing cost to produce 100 units of good X is $2,250, detailed as follows:

	$
Raw materials	500
Direct labour	1,000
Overhead	750
Total	**2,250**

The company bases its selling price on a cost-plus formula.

Required

a. What would be Energy Star Corporation's selling price per unit if it wants a gross profit of 10% above cost?

(04 Marks)

b. Energy Star Corporation wants to be price competitive on an international basis. To accomplish this it must be able to price its product no higher than $21.50. Using the target costing methodology, what would be Energy Star Corporation allowable cost? Assume that the company still wants a profit margin of 10% of its allowable costs. What does your calculation imply about its manufacturing costs?

(06 Marks)

(Total 20 Marks)