

Eastern University, Sri Lanka
Faculty of Commerce and Management

Final Year First Semester Examination in Bachelor of Commerce (Specialization in Accounting
and Finance) 2012/2013 (March 2015)

Proper/Repeat

DAF 4033 International Accounting

Time: 03 hours

Answer all questions

- (I) Explain how international accounting is distinct from domestic accounting. (05 Marks)
- (II) What are contemporary factors contributing to the internationalization of the subject of Accounting? (05 Marks)
- (III) Why have international accounting issues grown in importance and complexity in recent years? (05 Marks)
- (IV) Explain what is meant by **Global Capital Markets**. (05 Marks)

(Total 20 Marks)

- (I) Identify seven economic, socio, historical, and institutional factors that are believed to influence accounting development. Explain how each one affects accounting practice. (07 Marks)
- (II) The four approaches to accounting development that are originally outlined in 1967. Do you think these patterns will persist in the future? Why or why not? (05 Marks)
- (III) Explain the difference between the "Fair Presentation" and "Legal Compliance" orientation of accounting and identify nations in which each is prevalent. (04 Marks)

(IV) What is the purpose of classifying systems of accounting? What is the difference between a "Judgmental" and an "Empirical" classification of accounting?

(04 Marks)

(Total 20 Marks)

03. (I) Compare and contrast the mechanisms for regulations in the five countries (France, Germany, Czech Republic, The Netherlands, and United Kingdom)

(10 Marks)

(II) Compare and contrast the main features of financial reporting in the five countries (United States, Mexico, Japan, China, and India)

(06 Marks)

(III) What is the difference between Principles based and Rules-based accounting standards?

(04 Marks)

(Total 20 Marks)

04. (I) Why are multinational corporations increasingly being held accountable to constituencies other than traditional investor groups?

(02 Marks)

(II) What is the difference between voluntary disclosure and mandatory disclosure? Provide at least two explanations for the differences in managers' voluntary disclosure practices. Provide at least two explanations for the differences in managers' mandatory disclosure Practices.

(03 Marks)

(III) What is triple-bottom-line reporting, and why is it a growing trend among large multinational corporations?

(03 Marks)

(IV) What is the difference among the spot, forward, and swap markets? Illustrate each description with an example.

(06 Marks)

(V) What do current, historical, and average exchange rates mean in the context of foreign currency translation? Which of these rates give rise to translation gains and losses? Which do not?

(03 Marks)

(VI) What is the difference between a transaction gain or loss and a translation gain or loss?

(03 Marks)

(Total 20 Marks)

(I) Stale Ltd formed an overseas subsidiary company, called Labun, on 1 January 2013. The trial balance of the subsidiary at the end of the first year of its operations contained the following information:

Trial Balance at 31 December 2013

	€	€
Turnover		550,000
Purchases	385,000	
Opening inventories	22,000	
Other expenses	110,000	
Plant purchased 1 January 2013	200,000	
Net monetary current assets (receivables + cash – payables)	63,000	
Loan repayable 31 December 2016		80,000
Share capital		150,000
	780,000	780,000

The following further information is provided:

- Closing inventories at 31 December 2013 amounts to €60,500
- Depreciation charge for the year is €30,000

- The opening inventories were purchased on 1 January 2013 and the closing inventories were purchased during November and December 2013. Turnover, purchases and other expenses accrued evenly during the year.

- Exchange rate data:

	€/£
1 January 2013	10.0
Average for 2013	11.0
Average for November/December 2013	11.8
31 December 2013	12.0

Required:

Translate the final accounts of Labun into £ sterling using the current rate method.

(10 Marks)

- (II) Briefly explain the nature of foreign currency translation as (a) a restatement process and (b) a remeasurement process.

(02 Marks)

- (III) Stale Ltd purchased 10,000 kg of Tea from SA Ltd. for \$25,000 on 15 January 2013 when the rate of exchange was €10 to \$1. Settlement was made on 31 January 2013 when the exchange rate was €9.8 to \$1.

Required:

- (a) Show the amount at which the initial purchase should be recorded in the books of Stale Ltd.
- (b) Calculate the profit or loss arising on settlement of the debt and explain how it is to be accounted for by Stale Ltd.

Note: All calculations to the nearest € 1.

(04 Marks)

(IV) On September 1, 2014, a U.S. manufacturer sells, on account, goods to a Sri Lankan importer for 1 million Sri Lankan Rupees (LKR). The dollar/ LKR exchange rate is \$0.12 = LKR 1, the LKR receivable are due in 90 days, and the U.S. company operates on a calendar-year basis. The LKR begins to depreciate before the receivable is collected. By the end of the month, the dollar/ LKR exchange rate is \$0.11 = LKR 1; on December 1, 2014, it is \$0.09 = LKR 1.

Required:

Write the dated journal entries in U.S dollars to record the incurrence and settlement of this foreign currency transaction assuming

- (a) Company adopts a single transaction and
- (b) It employs a perspective and two- transactions perspective

(04 marks)

(Total 20 Marks)