



EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

FINAL YEAR - FIRST SEMESTER EXAMINATION IN BACHELOR OF COMMERCE

(SPECIALIZATION IN ACCOUNTING AND FINANCE) 2013 / 2014 (DECEMBER 2015 / JANUARY 2016)

(PROPER/ REPEAT)

DAF 4033 INTERNATIONAL ACCOUNTING

Answer all questions

Time: 03 Hours

01. i. Japanese affiliate reports sales revenue of ¥ 250,000,000. Spot and Forward Foreign Exchange Quotes are given in the below table.

| Foreign Currency in Dollars | | | | |
|-----------------------------|---------|---------|---------|---------|
| Currency | Spot | 1 month | 3 month | 1 year |
| Yen (¥) | 93.6250 | 93.5935 | 93.5283 | 93.0020 |

You are required to translate this revenue figure to U.S. dollars using the direct bid spot rate. Do the same using the indirect spot quote.

(04 Marks)

ii. On January 1, the wholly-owned Mexican affiliate of a Canadian parent company acquired an inventory of computer hard drives for its assembly operation. The cost incurred was 15,000,000 pesos when the exchange rate was MXN11.3 = C\$1. By yearend, the Mexican affiliate had used three-fourths of the acquired hard drives. Due to advances in hardware technology, the remaining inventory was marked down to its net realizable value of MXN1,750,000. The year-end exchange rate was MXN12.3 = C\$1. The average rate during the year was MXN11.8 = C\$1.

Required:

- a. Translate the ending inventory to Canadian dollars assuming the Mexican affiliate's functional currency is the Mexican peso.
- b. Would your answer change if the functional currency were the Canadian dollar? Explain.

(06 Marks)

- iii. What is the difference between the spot, forward, and swap markets? (06 Marks)
 - iv. What is the difference between a transaction gain or loss and a translation gain or loss? (04 Marks)
- (Total 20 Marks)**

02 i. On August 1, 2015, a U.S. manufacturer sells, on account, goods to a 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, 2015, it is \$1 = ₹ 67.

Required

Pass the journal entries for single transaction perspective and two transaction perspective. (06 Marks)

- ii. 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)
 - iii. What are the factors influences on accounting development? How each one affects accounting practice? (04 Marks)
 - iv. How do cultural values influence accounting? (04 Marks)
- (Total 20 Marks)**

03. i. Describe the structure of the International Accounting Standards Board and how it sets International Financial Reporting Standards. (05 Marks)

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- ii. Following information has been extracted from the financial statement of a company:

| Details | Rs. | Rs. |
|--------------------------------|---------|---------------|
| Plant and Machinery | 36,000 | |
| Less: Accumulated Depreciation | 6,000 | 30,000 |
| Building | 100,000 | |
| Less: Accumulated Depreciation | 40,000 | 60,000 |
| | | 90,000 |

The plant was purchased when the general price index was 120 and building was acquired when it was 100.

Required:

Restate the amount of the assets when the present price index is 150.

(05 Marks)

- iii. A summary of the Statement of Financial Position of Bierman Dreblin Company is given below:

| Assets | \$ | Liabilities | \$ |
|---|------------------|---------------------------------------|------------------|
| Cash and Account Receivable | 1,300,000 | Current Liabilities | 600,000 |
| Plant and Equipment (net of Depreciation) | 1,400,000 | Long term Liabilities | 1,000,000 |
| | | Owners' Equity | 1,100,000 |
| Total Assets | 2,700,000 | Total Liabilities and Equities | 2,700,000 |

The Current price index is 280. The plant and equipment and the long-term debts were acquired when the price index was at 180.

Required:

Revise the summary of Statement of Financial Position to restate all assets and equities in terms of current rupees. How will you treat the monetary gain or lose, if any?

(05 Marks)

- iv. From the following information restate the cost of goods sold according to HCA and CPP methods, presuming that the firm is using FIFO method for pricing its inventories:

| | |
|----------------------------------|--------|
| | ¥ |
| Inventories on 1 January , 2014 | 1,200 |
| Purchasing during 2014 | 14,000 |
| Inventories on 31 December, 2014 | 3,400 |

The above information has been given on Historical Cost basis. The price index in the beginning of 2014 was 100 while at the end of 2014, it was 180. The inventory on 31 December, 2014 consist of purchases made when the price index was 170. The purchases were made uniformly during the year.

(05 Marks)

(Total 20 Marks)

04. i. How is international accounting distinct from domestic accounting?
(05 Marks)
- ii. Compare and contrast the mechanisms for regulating and enforcing financial reporting in the five European countries (France, Germany, Czech Republic, The Netherlands, United Kingdom).
(05 Marks)
- iii. Compare the significant Accounting Practices of United States, Mexico, Japan, China India.
(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)
05. i. Explain the term global capital markets. How important are global capital markets in the world economy?
(05 Marks)

- ii. What is sustainability reporting, and why is it a growing trend among large multinational corporations? **(05 Marks)**
- iii. 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)**
- vi. What is market risk? Illustrate this risk with a foreign exchange example. **(05 Marks)**

(Total 20 Marks)

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