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 (MAY 2017)

(SPECIAL REPEAT)

DAF 4033 INTERNATIONAL ACCOUNTING

Answer all questions | **Time: 03 Hours**

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

(05 Marks)

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

(04 Marks)

iii. Glasgow 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:

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

(03 Marks)

iv. Using the information in (1.iii), Glasgow 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

Glasgow Corporation allowable cost? Assume that the company still wants a profi margin of 10% of its allowable costs. What does your calculation imply about its manufacturing costs?

(04 Marks)

v. A Chinese manufacturing subsidiary produces items sold in Australia. The items cost the equivalent of $3.50 to produce and are sold to customers for $4.75. A Cayman Islands subsidiary buys the items from the Chinese subsidiary for $3.50 and sells them to the Australian parent for $4.75.

Required:

Calculate the total amount of income taxes paid on these transactions. What are the implications for the company and the taxing authorities involved?

(04 Marks)

(Total 20 Marks)

02 i. Zonolia Enterprise has equipment on its books that it acquired 2 years ago. The equipment is being depreciated in straight -line fashion over a 10-year period and has no salvage value. The current cost of this equipment at the end of 2 year was 8,000,000,000 zonos (Z). During year 3, the specific price index for equipment increased from 100 to 137.5.

Required:

Based on this information, calculate the equipment's net current cost (i.e., current cost less accumulated depreciation) at the end of year 3.

(04 Marks)

ii. General price-level index information for the country of Zonolia is as follows:

31/12/2011	30,000
Average	32,900
31/12/2012	36,000

Required:

Using this information and the information in 2 (i), calculate the increase in the current cost of Zonolia Enterprise's equipment, net of inflation.

(04 Marks)

iii. Now assume that Zonolia Enterprises is a foreign subsidiary of a U.S.-based multinational corporation and that its financial statements are consolidated with those of its U.S. parent. Relevant exchange rate and general price-level information for the year are given here [general price-level information for Zonolia are provided in 2 (ii)]:

Exchange rate:	
31/12/2011	Z 4,400 = $1
Average 2012	Z 4,800 = $1
31/12/2012	Z 5,290 = $1

Required:

What would be the increase in the current cost of Zonolia Enterprise's equipment, net of inflation, when expressed in U.S dollars under the

a. restate-translate method.
b. translate-restate method.

(04 Marks)

iv. Assume that Zonolia Enterprise's comparative balance sheets (at historical cost) as at the end of 2011 and 2012 are as follows:

Balance sheet	**2011**	**2012**
Cash	Z 2,500	Z5,100
Equipment, net	4,000	3,500
Total assets	Z 6,500	Z 8,600
Current liabilities	Z 1,000	Z 1,200
Long-term debt	3,000	4,000
Owners' equity	2,500	3,400
Total	Z 6,500	Z 8,600

Required:

What was the change in Zonolia's net monetary asset or liability position?

(04 Marks)

v. Calculate Zonolia Enterprise's net monetary gain or loss in local currency for 2012 based on the general price-level information provided in 2 (ii).

(04 Marks)

(Total 20 Marks)

03. i. Why have international accounting issues grown in importance and complexity in recent years?

(05 Marks)

ii. Accounting may be viewed as having three components: measurement, disclosure and auditing. What are the advantages and disadvantages of this classification?

(05 Marks)

iii. Seven economic, socio historical, and institutional factors are believed to influence on accounting development. Explain how each one affects accounting practice.

(05 Marks)

iv. The four approaches to accounting development were originally outlined in 1967. Are these four patterns still valid today? Why or why not?

(05 Marks)

(Total 20 Marks)

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

(03 Marks)

ii. The United Kingdom and United Sates have a common accounting heritage and are linked by history and language. Anglo-American accounting is a term sometimes used to denote their accounting styles, which are similar in orientation, purpose and approach. Yet accounting differences still exist between these two countries.

Required:

Identify the major differences between U.K. and U.S. accounting styles.

(05 Marks)

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

(05 Marks)

iv. What is triple bottom-line reporting and why is it a growing trend among large multinational corporations? There are now few requirements for this type of reporting. Are more regulations necessary? Why or why not?

(07 Marks)

(Total 20 Marks)

05. i. Briefly explain about GRI.

(03 Marks)

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

(04 Marks)

iii. On September 1, 2013, a US manufacturer sells, on account, goods to a Sri Lankan importer for 1 million Sri Lankan rupees. The dollar/ rupee exchange rate is \$0.00763 = LKR 1. The rupees receivable are due in 90 days, and the US Company operates on calendar year basis. The rupee begins to depreciate before the receivable is collected. By the end of month, the dollar/ rupees exchange rate is \$0.0075 = LKR 1. On 1st December 2013, it is \$0.0074 = LKR 1.

Required: Prepare journal entries in single and two transaction perspectives.

(05 Marks)

vi. The balance sheet 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 position on the following methods:

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

(08 Marks)

(Total 20 Marks)