

The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

ACC 414 : INTERNATIONAL ACCOUNTING

DATE: 7TH APRIL 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

FOREIGN EXCHANGE RISKS AND HARMONIZATION OF ACCOUNTING STANDARDS: THE CASE OF EXCELICA TNC

Excellica TNC is a trans-national corporation with branches in many countries spread over three major continents of the world. Though some countries within which Excellica TNC has branches adhere to International Financial Reporting Standards (IFRS), many of the countries still stick to their own accounting standards. This poses a challenge when preparing consolidated financial statements.

Currencies of some host countries are not directly convertible to Excellica TNC's home currency. The US Dollar has to be used as an intermediary currency. Foreign trade among the corporation's branches in different countries is complicated by fluctuations in exchange rates of currencies. The corporation is thus exposed to foreign exchange risks.

Harmonization of accounting standards all over the world would be of great benefit to Excellica TNC. However, this is yet to be actualized. The corporation has thus to keep on devising strategies to minimize its exposure to foreign exchange risks, as well as continue to prepare financial statements in divers ways to comply with all laws and regulations of the host countries.

Required:

Using the issues raised in the above case as a guide together with knowledge gained on foreign exchange risks and accounting standards;

- a)** Examine three types of foreign exchange risks that have to be dealt with by transnational corporations such as Excellica TNC, citing relevant examples.

(9 Marks)

b) Demonstrate how Excellica TNC could apply 'foreign currency translation' in the preparation of consolidated financial statements.

(6 Marks)

c) Assess five benefits that would accrue to Excellica TNC if all countries of the world would use harmonious accounting standards.

(10 Marks)

QUESTION TWO

XYZ Company has 3 foreign branches namely; X, Y, and Z. Assume that the company does not allocate headquarter's (HQ's) costs or interest on long-term debt to the branches. The following are extracts from the financial statements:

	X	Y	Z	HQ	Total
	Ksh '000'	Ksh '000'	Ksh '000'	Ksh '000'	Ksh '000'
Operating income	360	450	720		1,530
Variable costs of HQ				120	
Fixed costs of HQ				180	
Interest on Long term debt				600	(900)
Income before taxation					630
Taxes					225
Income after taxation					405
Book values of assets:					
Current assets	600	750	900	300	2,550
Non-current assets	900	2,250	3,600	450	7,200

					9,750
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Note:

Financial results of the 3 foreign branches have already been translated into the company's home currency, Kenya Shillings (Ksh).

Required:

a) Calculate the Return on Investment (ROI) for each branch. (6 Marks)

b) Compute the Residual Income (RI) for each branch, assuming that the company imputes an interest charge of 10% on total assets of each branch.

(6**Marks)**

c) Assume that there is an asset available to branch X which costs Ksh 150,000 and has an annual profit of Ksh 30,000.

i) Based on Return on Investment (ROI), advise the manager of branch X on whether to acquire the asset and comment on whether this decision is in line with the overall objective of the company. (2 Marks)

ii) Based on Residual Income (RI), advise the manager of branch X on whether to acquire the asset.

(1 Mark)**QUESTION THREE**

a) Alpha Company and Omega Company have agreed to merge into Alpha-Omega Company. Discuss five reasons that could have informed such a decision.

(5**Marks)**

b) It is one thing to develop international accounting standards and it is another to have them enforced on countries. Argue five challenges in the enforcement of international accounting standards across all parts

of the world citing examples.

(10 Marks)

QUESTION FOUR

Dominion Company has its headquarters in Kenya and a branch in Nigeria. The currency of Kenya is Kenya Shillings (KSH) while the currency of Nigeria is Nigerian Naira (NNR). The following are the trial balances relating to operations in both countries as at 31st December 2025:

	KENYA		NIGERIA	
	DR.	CR.	DR.	CR.
	KSH '000'	KSH '000'	NNR '000'	NNR '000'
Property, Plant & Equipment	1,800		6,000	
Inventories (1 st January 2024)	400		2,000	
Trade receivables	300		2,500	
Cash and cash equivalents	200		1,500	
200,000 Ordinary shares of KSH 10 each		2,000		

50,000 6% Preference shares of NNR 200 each				10,000
10% Debentures		300		1,100
Trade payables		100		900
Sales		2,000		20,800
Purchases	1,200		12,200	
Staff costs	120		2,800	
Rent expenses	80		1,600	
Insurance expenses	60		1,400	
Selling and distribution expenses	140		2,000	
Office and administration expenses	100		800	
	4,400	4,400	32,800	32,800

The following additional information is provided:

- (i) The value of inventories as at 31st December 2025 in the Kenyan headquarters and Nigerian branch was KSH 300,000 and NNR 2,400,000 respectively.
- (ii) The Ordinary shares were issued in Kenya on 1st January 2010, and the 6% Preference shares were issued in Nigeria on 1st January 2020.
- (iii) The 10% Debentures were issued both in Kenya and in Nigeria on 1st July 2022.
- (iv) Property, Plant and Equipment were purchased in Kenya on 1st January 2025, and part of them sent to the Nigerian branch at the value shown in the trial balance, being at the exchange rate prevailing on that date.
- (v) The exchange rates between KSH and NNR were as follows:
 - On 1st January 2010: KSH 1/NNR 20
 - On 1st January 2020: KSH 1/NNR 24

On 1st July 2022: KSH 1/NNR 26

On 1st January 2025: KSH 1/NNR 28

On 31st December 2025: KSH 1/NNR 32

Average for the year ended 31st December 2025: KSH 1/NNR
30

Required:

Prepare the following financial statements, showing in columnar form results for Kenya, Nigeria, and Combined, all in Kenya Shillings:

a) Statement of Income for the year ended 31st December 2025.

(9 Marks)

b) Statement of Financial Position as at 31st December 2025. **(6**

Marks)

QUESTION FIVE

a) Contrast International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs).

(5 Marks)

b) Analyse the effects of five environmental factors that are responsible for diverse accounting practices around the globe, citing examples.

(10 Marks)

QUESTION SIX

Brilliant PLC is a textile company incorporated in the United States and with a branch in Hong Kong, its main market. Full processing of the raw materials into finished products takes place in the United States and then marketed in Hong Kong. Corporation tax rate in the United States is charged at 35% whereas in Hong Kong the Corporation tax rate for foreign companies is 60%. The costs incurred in the United States in the year 2024 include: Processing costs USD 48,000 and other costs USD

36,000. In Hong Kong, marketing costs incurred within the same year were USD 96,000.

Brilliant PLC transferred finished products from United States to Hong Kong during the year at USD 600,000. Similar products available at the local Hong Kong market were being sold for an equivalence of USD 240,000 during the year. The total revenue generated from sales by Brilliant PLC in Hong Kong was USD 2,160,000. Brilliant PLC justified its transfer price of USD 600,000 by citing the superior quality of its products.

Assume that there were no exchange rate fluctuations between United States and Hong Kong currencies during the year and that the basic principles of computing corporation tax are the same in the two countries.

Required:

Prepare income statements and compute the tax liability for Brilliant PLC in each of the two countries, and the total corporation tax liability if the products were transferred from the United States to Hong Kong at a transfer price of:

a) USD 600,000 (7

Marks)

b) USD 240,000 (7

Marks)

c) Compute the total corporation tax liability difference in (a) and (b) above, and advise on which transfer price is better for the company.

(1 Mark)