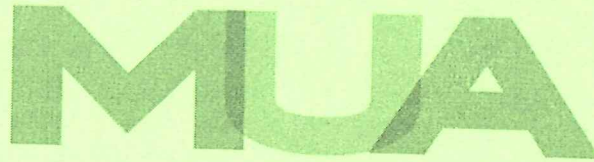


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

ACC 414 : INTERNATIONAL ACCOUNTING

DATE: 31ST JULY 2024

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:

ACCOUNTING STANDARDS: CHALLENGES FACING MAJUTO REPUBLIC

Banana Republic is a hypothetical country which luckily or unluckily, was never colonized, depending on which view-point one is examining it from, that is depending on whether there are any advantages of colonization from the perspective of the colonised Republic. During the 1800s when colonization was rampant, an attempt by aspiring colonial masters was heavily quashed by unrelenting combatants of Banana Republic, forcing the former to retreat in shameful disbelief.

Banana Republic has over the years been strongly opposing virtually everything that is foreign, especially whatever emanates from the former colonists, with the country branding it as attempt towards neo-colonialism. As such, Banana Republic has had very limited international relations, including but not limited to, few embassies. In regard to standards, Banana Republic has developed its own standards which her people follow and defend with religious zeal.

There are serious contrasts between the accounting standards of Banana Republic and International Financial Reporting Standards. For example, codified laws have been made in this country. Reported profit from the Income Statement is the same profit that is used for taxation purposes by the government of Banana Republic. The country has also placed embargo on repatriation of profits to other countries. Due to this and other restrictive government policies of Banana Republic, there are hardly any Foreign Direct Investments in the country. With the undeniable powerful force of globalization and other technological/digital advancements that have been turning the world into a global village, Banana Republic has found herself at crossroads. There has been mounting pressure from her people to embrace international relations. Counter retaliations from other countries of the world have made life unbearable for citizens of Banana Republic, especially after having experienced disasters like hurricanes, floods, terrorist attacks etc. The country is in dire need for harmonious relations with other countries.

In order to attract Multi-National Corporations into the country, Banana Republic is now realising the need to relax its embargoes and restrictions, and also to embrace globally recognized accounting standards, particularly the International Financial Reporting Standards.

Required:

In relation to issues raised in the case study above together with knowledge gained from the Management University of Africa (MUA);

- a) Examine four problems caused by 'Worldwide Accounting Diversity' citing examples from the above case as well as other knowledge gained from MUA. (8 Marks)
- b) Propose six benefits that would be enjoyed by Banana Republic through embracing global harmonization of accounting standards. (9 Marks)
- c) Citing examples from the case of Banana Republic and other global experiences, assess four obstacles that are experienced in international enforcement of accounting standards. (8 Marks)

QUESTION TWO

Visioners Company Ltd. has its headquarters in Kenya whose currency is Kenya Shillings (KSH) and a branch in Nigeria whose currency is Nigerian Naira (NNR). The following are the trial balances were extracted from the books of the company's headquarters and branch in their respective currencies as at 31st December 2023:

	KENYA		NIGERIA	
	DR.	CR.	DR.	CR.
	KSH	KSH	NNR	NNR
Equipment	180,000		600,000	
Stock (1 st January 2022)	40,000		200,000	
Trade debtors	30,000		250,000	
Cash at Bank	20,000		150,000	
200,000 Ordinary shares of KSH 10 each		200,000		
50,000 6% Preference shares of NNR 20 each				1,000,000
10% Debentures		30,000		110,000
Trade creditors		10,000		90,000
Sales		200,000		2,080,000
Purchases	120,000		1,220,000	
Salaries	12,000		280,000	
Rent expenses	8,000		160,000	
Insurance expenses	6,000		140,000	
Marketing expenses	14,000		200,000	
Administration expenses	10,000		80,000	
	440,000	440,000	3,280,000	3,280,000

The following additional information is provided:

- (i) Stock was valued as at 31st December 2023 in the Kenyan headquarters KSH 30,000 and Nigerian branch NNR 240,000.
- (ii) The Ordinary shares were issued in Kenya on 1st January 2015, and the 6% Preference shares were issued in Nigeria on 1st January 2018.
- (iii) The 10% Debentures were issued both in Kenya and in Nigeria on 1st July 2020.
- (iv) Equipment was purchased in Kenya on 1st January 2023, and part of it sent to the Nigerian branch at the value shown in the trial balance at the exchange rate prevailing on that date.
- (v) The exchange rates between KSH and NNR were as follows:
 - On 1st January 2015: KSH 1 = NNR 20
 - On 1st January 2018: KSH 1 = NNR 24
 - On 1st July 2020: KSH 1 = NNR 26
 - On 1st January 2023: KSH 1 = NNR 28
 - On 31st December 2023: KSH 1 = NNR 32

Required:

Using Home Country's currency, that is, Kenya Shillings (KSH), prepare;

- a) Income Statement for the year ended 31st December 2023, showing in columnar form the results for Kenya, Nigeria branch, and combined results for the whole company. **(8 Marks)**
- b) Balance Sheet as at 31st December 2023, showing in columnar form the results for Kenya, Nigeria branch, and combined results for the whole company. **(7 Marks)**

QUESTION THREE

Juhudi PLC is a company registered in Kenya and has a branch in Uganda, its main market. Full Production of its products takes place in Kenya while Marketing is carried out in Uganda. Corporation tax rate in Kenya is charged at 30% whereas in Uganda the Corporation tax rate for foreign companies is 45%. The costs incurred in Kenya in the year 2022 include: Production costs KSH 72,000 and other costs KSH 54,000. In Uganda, Marketing costs incurred within the same year amounted to KSH 144,000.

Juhudi PLC transferred finished goods from Kenya to Uganda during the year at KSH 900,000. Similar goods available at the local Uganda market were being sold for an equivalence of KSH 500,000 during the year. The total revenue generated from sales by Juhudi PLC in Uganda was KSH 1,800,000. Juhudi PLC justified its transfer price of KSH 900,000 by citing the special production technology it uses.

Assume that there were no exchange rate fluctuations between Kenya and Uganda 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 by Juhudi PLC in each of the two countries, and the total corporation tax liability if the products were transferred from Kenya to Uganda at a transfer price of:

- a) KSH 900,000 (7 Marks)
- b) KSH 500,000 (7 Marks)
- c) Calculate the total corporation tax liability savings, if any, arising from the use of the two differing transfer prices in (a) and (b) above, citing the best transfer price for the company. (1 Mark)

QUESTION FOUR

Baraka Company, incorporated in Kenya, has 3 branches in Tanzania: X, Y, and Z. Assume that the company does not allocate Tanzania's head office's (HO's) costs or interest on long-term debt to the branches. The summary of the financial results are as follows:

	X	Y	Z	HO	Total
	Tsh	Tsh	Tsh	Tsh	Tsh
Operating income	36,000	45,000	72,000		153,000
Variable costs of Tanzania's HO				10,000	
Fixed costs of Tanzania's HO				15,000	
Interest on Long term debt				35,000	(60,000)
Income before taxation					93,000
Taxes					(20,000)
Income after taxation					73,000
<u>Average book values:</u>					
Current assets	40,000	75,000	100,000	35,000	250,000
Non-current assets	60,000	150,000	200,000	40,000	450,000
					700,000

Required:

- Compute the Return on Investment (ROI) for each branch and for the entire company in Tanzania. **(6 Marks)**
- Compute the Residual Income (RI) for each branch, assuming that the company requires a 15% return on total assets of each branch. **(6 Marks)**
- Assume that there is an asset available to branch X which costs Tsh 15,000 and

which has an annual profit of Tsh 4,000.

- i) Based on Return on Investment (ROI), advise the manager of branch X on whether to acquire the asset and comment on the suitability of this decision from the overall company's perspective. **(2 Marks)**
- ii) Based on Residual Income (RI), advise the manager of branch X on whether the asset should be invested in. **(1 Mark)**

QUESTION FIVE

- a) Discuss the applications of 'foreign currency translation' to international trade and Multi-National Corporations. **(6 Marks)**
- b) Demonstrate the effects of three types of 'foreign exchange risks' to the operations and financial reporting of international businesses. **(9 Marks)**

QUESTION SIX

- a) Differentiate between International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs). **(3 Marks)**
- b) Appraise four environmental factors that are responsible for diversity in accounting practices globally citing relevant examples. **(12 Marks)**