

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

ACC 414 : INTERNATIONAL ACCOUNTING

DATE: 28TH JULY 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**a) TRANSFER PRICING EFFECTS ON TAXATION**

Cheenshaan PLC is a leather processing company incorporated in China and with a branch in Indonesia, its main market. The leather is fully processed into leather bags in China and marketed in Indonesia. Corporation tax rate in China is charged at 30% whereas in Indonesia the Corporation tax rate for foreign companies is 50%. The costs incurred in China in the year 2022 include: Processing costs YUAN 40,000 and other costs YUAN 30,000. In Indonesia, marketing costs incurred within the same year were YUAN 80,000.

Cheenshaan PLC transferred the leather bags from China to Indonesia during the year at YUAN 500,000. Similar leather bags available at the local Indonesian market were being sold for an equivalence of YUAN 200,000 during the year. The total revenue generated from sales by Cheenshaan PLC in Indonesia was YUAN 1,800,000. Cheenshaan PLC justified its transfer price of YUAN 500,000 by citing the unique technology it uses in its factories.

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

Required:

Using appropriate analysis, compute the tax payable by Cheenshaan PLC in each of the two countries, and the total corporation tax liability if the leather bags were transferred from China to Indonesia at a transfer price of:

i) YUAN 500,000 (7.5 Marks)

ii) YUAN 200,000 (7.5 Marks)

NOTE: YUAN is the Currency for China

- b)** Yapyap Republic uses its own accounting standards in its endeavour to appear unique. Analyse five valid reasons why Yapyap Republic should harmonise its accounting standards with international financial reporting standards.

(10 Marks)

QUESTION TWO

- a)** Examine two rationales for International Standards in Accounting and three differences between 'International Accounting Standards (IASs)' and 'International Financial Reporting Standards (IFRSs)'.

(5 Marks)

- b)** Discuss five environmental factors that impact on global accounting diversity citing relevant illustrations.

(10 Marks)

QUESTION THREE

- a)** Glorizones MNC uses the balanced score card to assess the performance of its foreign subsidiaries qualitatively before engaging financial measures. Describe three perspectives that are considered in the 'balanced scorecard' as a measure of performance, underscoring the appropriateness of each.

(6 Marks)

- b)** New Horizontes Company, listed on the Nemisis Stock Exchange, is contemplating foreign direct investment in Cheparagash Republic. Examine three types of risks that the company will have to experience after implementing its new move, showing the effects of each risk.

(9 Marks)

QUESTION FOUR

A Kenyan Non-governmental organization (NGO) operating in Tanzania, has been purely relying on donor funding. However, the donors have issued notice of their new policy to phase out. As part of preparation for future financial sustainability, the NGO has requested for a one-off funding to invest in an income generating project. A five-year investment project requiring an initial capital expenditure of TSh. 1,200,000 has been identified for appraisal. The cash inflows expected to be generated by the project at the end of each of the five years is as follows:

Year	Cash inflow (TSh.)
1	300,000
2	400,000
3	600,000
4	500,000
5	700,000

Assume that the NGO management has set the required rate of return for its investment projects at 10%.

Required:

- a)** Compute the Net Present Value (NPV) of the project and advise on whether the project should be accepted or rejected, giving the reason thereof.

(9 Marks)

- b)** Calculate the Benefit Cost Ratio (BCR) of the project and advise on whether the project should be accepted or rejected, citing the reason for your advice.

(6 Marks)

QUESTION FIVE

Blebless Company has its headquarters in Kenya and a branch in Uganda, the currency of Kenya being Kenya Shillings (KSH) while the currency of Uganda is Uganda Shillings (USH). The following are the trial balances relating to operations in both countries as at 31st December 2023:

	KENYA		UGANDA	
	DR.	CR.	DR.	CR.
	KSH '000'	KSH '000'	USH '000'	USH '000'
Property, Plant & Equipment	1,800		6,000	
Inventories (1 st January 2023)	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 USH 200 each				10,000
10% Debentures		300		1,100
Trade payables		100		900
Sales		2,000		20,800
Purchases	1,200		12,200	

			0	
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
		0	0	0

The following additional information is provided:

- (i) The value of inventories as at 31st December 2023 in the Kenyan headquarters and Uganda branch was KSH 300,000 and USH 2,400,000 respectively.
- (ii) The Ordinary shares were issued in Kenya on 1st January 2001, and the 6% Preference shares were issued in Uganda on 1st January 2014.
- (iii) The 10% Debentures were issued both in Kenya and in Uganda on 1st July 2016.
- (iv) Property, Plant and Equipment were purchased in Kenya on 1st January 2023, and part of them sent to the Uganda 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 USH were as follows:
 - On 1st January 2001: KSH 1/USH 20
 - On 1st January 2014: KSH 1/USH 24
 - On 1st July 2016: KSH 1/USH 26
 - On 1st January 2023: KSH 1/USH 28
 - On 31st December 2023: KSH 1/USH 32
 - Average for the year ended 31st December 2023: KSH 1/USH

30

Required:

Prepare the following, in Kenya Shillings:

- a)** Income Statement for the year ended 31st December 2023, showing in columnar form the results for Kenya, Uganda branch, and combined

results for the entire company.

(7.5 Marks)

- b)** Statement of Financial Position as at 31st December 2023, showing in columnar form the results for Kenya, Uganda branch, and Combined results for the entire company.

(7.5 Marks)

QUESTION SIX

- a)** Petronica Company is a petroleum company that makes imports from Arabian countries. Examine two hedging strategies that would be beneficial to the company to minimize its exposure to foreign exchange risks.
- b)** Development of accounting standards is a rigorous exercise that calls for consultative engagements with diverse stakeholders. Examine four hurdles encountered by the International Accounting Standards Board while developing new accounting standards.

(8 Marks)