

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

1ST SEMESTER 2023/2024 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE
OF BACHELOR OF COMMERCE

BCOM 416: INTERNATIONAL ACCOUNTING

STREAM:

TIME: 2 HRS

DAY: WEDNESDAY [11.30-13.30 P.M] ***DATE: 13/12/2023***

THIS QUESTION PAPER CONSISTS OF SEVEN (7) PAGES

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INSTRUCTION

- i Answer question **ONE** compulsory and any other two questions.
- ii Start each question on a new page.

QUESTION ONE

The following is a comprehensive financial position of CYMIT LTD as at 31 December 2010

	2009	2010
Assets	'pounds'	'pounds'
Land and buildings	80,000	80,000
Plant and equipment	420,000	540,000
Accumulated depreciation; Plant and equipment		[48,000]
	500,000	572,000
Short lived Assets		
Cash and Receivables	400,000	520,000
Inventories	300,000	260,000
	<u>700,000</u>	<u>780,000</u>
TOTAL ASSETS	<u>1,200,000</u>	<u>1,352,000</u>
Financed by;		
Equity		
Ordinary shares of 100 pounds each	280,000	280,000
Share premium	560,000	560,000
Reserves	<u>-</u>	<u>100,000</u>
	<u>840,000</u>	<u>940,000</u>
Liabilities		
Long term	200,000	232,000
Short term	<u>160,000</u>	180,000
	<u>360,000</u>	<u>412,000</u>
TOTAL LIABILITIES	<u>1,200,000</u>	<u>1,352,000</u>

The income statement disclosed the following:

	'pounds'	'pounds'
Turnover		1,600
Less cost of sale		
Opening Inventory[FIFO]	300	
Purchases	1,000	
	1,300	



Less closing Inventory	[260]	[1,040]
Gross Profit		560
Less expenses		
Operating cost	192	
Depreciation	<u>48</u>	
Total expenses		[240]
Earnings before tax		320
Less corporation TAX		[140]
Pay after tax		180
Less dividends paid		[80]
Retained earnings		<u>100</u>

Additional information

- 1.Equipments costing 120,000 were purchased when the general price index was 157.5
 - 2.Sales and purchases were acquired evenly throughout the year.
 - 3.Dividends were declared and paid at the end of the year.
 - 4.Income tax accrued evenly during the year
- Assuming the price index moved as follows;
- | | |
|------------|----------|
| 31/12/2009 | at 150.1 |
| Average | at 160 |
| 31/12/2010 | at 163.8 |

Required;

- a) Using illustrations calculate the gains and losses on monetary items [12 marks]
- b) The multinational corporations must plan their operations and put in place proper control systems in order to succeed.

Required;

- Enumerate the components of the multinational control systems [10 marks]
- c) With the increase in the number of foreign operations, multinational companies have a whole series of accounting problems.

Required,

- Explain the Accounting problems faced by the multinational corporations [8 marks]



QUESTION TWO

Mitchell Cotts PLC is a public company operating within the industrial chemical sector. For the purpose of achieving economies of scale it has entered into combination with a partner company called AtacoPLC

On 1/4/2008 Mitchell Cotts issued 5 of its own shares for every 4 shares in Ataco. The market value of Mitchell Cotts share on 1/4/018 was 12 pound each. The summarised financial statement of both the companies were as follows at 30 September 2008

**The income statement
For period ended 30th September 2018**

	Mitchell Cotts'000'	Nichel '000'
Turnover	48,000	40,000
Cost of sale	(33,200)	(23,600)
Gross profit	14,800	16,400
Less operating cost	(3,200)	(2,000)
Operating profit	11,600	14,400
Less taxation	(4000)	(6000)
Earnings after tax	<u>7,600</u>	<u>8,400</u>

Financial Statements at 30th September 2009

	Mitchell Cotts'000'	Nichel'000'
Long lived assets		
Land and Building	40,000	30,000
Plant and Machinery	88,000	40,000
Investment		25,600
	A <u>128,000</u>	<u>95,600</u>
Short lived assets		
Inventories	45,200	47,200
Receivables	32,800	48,400
Bank balances	1,000	400
	<u>79,000</u>	<u>96,000</u>
Less short lived liabilities		
Trade creditors	(30,600)	(35,400)
Taxation	(4,400)	(6,000)
	<u>(35,000)</u>	<u>(41,400)</u>
Net working capital	B <u>44,000</u>	<u>54,600</u>
	<u>172,400</u>	<u>150,200</u>



Financed by;		
Share capital@ 10 pounds each	40,000	24,000
Share premium	8,000	4,800
Reserves		
Retained earnings	<u>114,400</u>	<u>85,400</u>
	162,400	114,200
Long term liabilities		
8% loan	10,000	36,000
	<u>172,400</u>	<u>150,200</u>

Additional information;

- 1.The fair value of Nichel PLC investment was 5million in excess of its book value at the date of acquisition.
- 2.Consolidated goodwill has a 5 year life and amortization is apportioned to time in the year of acquisition and treated as an operating expense.
- 3.No dividends was proposed or paid by either company

a) Required; Prepare consolidated

- i) Income statement **(7 marks)**
- ii) Statement of Financial position **(8 marks)**

b) Transfer pricing is a process at which goods/services are transferred from one point(subsidiary/division) to another within the organization.

Required;

Explain the main objectives of multinational corporations transfer pricings. **(5 marks)**

QUESTION THREE

a) Simros started trading several years ago. For the time it has been in operation, the trading processes have been constant and therefore the financial position statements shown below satisfies both historical and current cost’s convention. (Currency in pounds)

SIMROS LTD

Financial position as at 31st December 2013

Assets	‘000’
Long lived assets (1/1/13)	10,800
Inventories (600 units)	6,000
Receivables	7,200



Cash and cash equivalents	3,000
	<u>27,000</u>
Financed by;	
Share capital and reserves	13,500
Loan capital	13,500
	<u>27,500</u>

Additional information

1. Simros Ltd buys goods on cash and on one-month credit
2. The company incurs no overhead expenses
3. Fixed assets are written off over 3 years on straight line method basis
4. The mark up is constant at 20% on the historical cost, determined on FIFO basis
5. Monthly sales is 600 units.
6. Cost of purchases increased at the beginning of the month.
7. The replacement cost of fixed assets increased by 50%.
8. All profits made after tax are paid out as dividends.

Required;

- a) Prepare under the historical cost method;
 - i) The income statement
 - ii) Financial statement. **(10 marks)**
- b) As we prepare financial statements for publication, there is a standard way of reporting. However, some countries go beyond the limits as they report.

Required;

Explain the additional disclosures that have been made by reporting entities and briefly state the importance of each of the above disclosures **(10 marks)**

QUESTION FOUR

- a) Matopeni LTD is a UK based company which owns and rents properties, established a fully owned subsidiary called Forever ventures LTD on 31/12/10. Matopeni subscribed \$100,000 in cash for 1,000,000 shares of one dollar each on 31/12/10. The Forever venture raised a long term loan of \$500,000 and purchased free hold land and building suitable for renting at a cost of \$1,200,000. Opening balance sheet of Forever venture was as follows.

	\$
Capital	1,000,000
Loan	500,000
	<u>1,500,000</u>



Assets		
Freehold land and Building		1,200,000
Cash		300,000
		<u>1,500,000</u>

During the year ended 31/12/11, the following is the financial statements

Profit and loss		
Rentals		400,000
Expenses		
Management fees	115,000	
Depreciation	50,000	
Interest on loan	75,000	(240,000)
Profit before tax		160,000
Tax		(60,000)
Earnings after tax		<u>100,000</u>

Required;

Translate in temporal method;

- i). Income statement account for the year ended 31/12/2011 (6 marks)
- ii) Financial statement as at 31/12/2011 (6 marks)

Exchange rate is as follows

Date	exchange rates
1/1/11	10 dollars to a pound
Average	8 dollars to a pound
31/12/11	6 dollars to a pound

- b) For uniformity of accounting worldwide, it was critical to harmonize the way the Accounts were to be prepared to enable comparability and relevance.

Required;

What are the problems or barriers to international harmonization in presentation of accounting statements. (8 marks)

