FINAL EXAMINATION

SESSION : SEMESTER 2, 2023

PROGRAMME : INTERNATIONAL BUSINESS

COURSE : INTERNATIONAL ACCOUNTING (244 213)

DURATION : 3 HOURS

	Types of Questions	Time Allowed	No. of Questions	Total Marks
SECTION A	MCQ	20 Min.	20 Questions	20
SECTION B	Analytical/Numerical Questions	80 Min.	4 Questions	40
SECTION C	Application Based Questions	80 Min.	4 Questions	40

MATERIALS PERMITTED : NON-PROGRAMMABLE CALCULATOR

MATERIALS PROVIDED : QUESTION PAPER

EXAMINER(S) : Dr. Bhupesh Lohar

IMPORTANT NOTE: THIS PAPER SHOULD NOT BE TAKEN OUT OF THE EXAMINATION HALL.

This paper consists of 10 printed pages, including the cover page.

ST. THERESA INTERNATIONAL COLLEGE
BACHELOR OF BUSINESS ADMINISTRATION
FINAL EXAMINATION
SEMESTER 2, 2023
244 213 INTERNATIONAL ACCOUNTING
TOTAL MARKS: 100

TIME: 3 HOURS

SECTION A

MULTIPLE CHOICE QUESTIONS **20 MARKS**

1. A price on goods and services sold by one member of a corporate family to another, such as from a parent to its subsidiary in a foreign country, is known as
  A. Export price
  B. Transfer price
  C. Arm's length price
  D. Import price
  E. Purchase price

2. The accounting process in which the financial statements of a parent company and its subsidiaries are added together to yield a unified set of financial statements is called:
  A. Amalgamation
  B. Consolidation
  C. Amortization
  D. Translation
  E. Transmission

3. What is (are) not a principle (s) behind enterprise risk management (ERM)?
  A. Uncertainty results in risk
  B. The ERM framework can help management manage uncertainty
  C. Uncertainty can result in opportunity
  D. Endorse checks for deposit
  E. The ERM facilitates management

4. The ERM model includes an element called risk response. According to that element, which of the following is an appropriate way to respond to risk?
  A. Estimate material risk assessments.
  B. Implement a system to effectively monitor risk.
  C. Share the risk with another.
  D. The primary cost analysed is overhead.
  E. Approve sales return

5. A firm exports goods to the United States and has recently entered a large contract to supply goods that will be settled in US dollars within three months of the final delivery of goods. The British firm is thus long in US dollars. Assume that it wishes to hedge the

exchange risk involved but believes that the dollar is more likely to rise than fall in value. Which instrument is it more likely to use to hedge the risk?

A. Foreign exchange option
B. Forward rate agreement
C. Foreign exchange futures
D. Translation agreement
E. Accounting agreement

6. Which of the following types of FDI includes creation of new assets and production facilities in the host country?
   A. Merger and acquisition
   B. Brownfield investment
   C. Strategic alliances
   D. Bluefield investment
   E. Greenfield investment

7. Which of the following theories explains the behaviour of late entrants to catch up with the competition?
   A. The perfect market hypothesis
   B. The transaction cost approach
   C. The leapfrogging theory
   D. The imperfect market hypothesis
   E. OLI theory

8. For which of the following costs is it generally necessary to apply a tax adjustment to a yield measure?
   A. Cost of debt
   B. Cost of preferred stock
   C. Cost of common equity
   D. Cost of retained earnings
   E. Cost of debt and equity

9. Which of the following is not a recognized approach for determining the cost of capital?
   A. Dividend discount model approach
   B. Before tax cost of preferred stock plus risk premium approach
   C. Capital-asset pricing model approach
   D. Before tax cost of debt plus risk premium approach
   E. OLI approach

10. What is meant by using proxy firms with CAPM model?
    A. A proxy firm is one that uses the capital-asset pricing (CAPM) model as its primary evaluation tool in determining project selection or rejection.
    B. A proxy firm is one that uses the weighted average cost of capital (WACC) as its primary evaluation tool in determining project selection or rejection.
    C. A proxy firm is a privately held firm in the same industry as the firm.
    D. A proxy firm is a publicly traded firm, which may be entirely engaged in a business that is nearly identical to the project, used to estimate the beta for a project.
    E. A proxy firm is a government held firm in the same industry as the firm.

11. Unlike other types of information systems, these systems are not designated primarily to solve specific problems:
    A. Executive support systems
    B. Management information systems
    C. Decision-support systems
    D. Transaction processing systems
    E. Production systems

12. The ability to generate demand forecasts for a product and to develop sourcing and manufacturing plans for that product is provided by:
    A. Customer relationship management
    B. Supply chain management
    C. Enterprise software
    D. The MIS
    E. DBMS

13. Which of the following is least likely to be associated with low-quality earnings?
    A. Slowdown in inventory turnover
    B. Increase in intangible assets
    C. One-time source of income
    D. Decrease in borrowings
    E. Change in working capital

14. Financial statements report only items that have significant economic value." This statement summarizes which basic accounting concept?
    A. Matching
    B. Materiality
    C. Disclosure
    D. Realization
    E. Perpetual

15. Which of the following is one of the procedures in the audit acceptance phase?
    A. Prepare the audit programme
    B. Perform audit procedures to understand the entity and its environment
    C. Investigate legal information
    D. Determine need for other professionals
    E. Certifying the audit reports

16. What considerations are addressed by the auditor in determining audit team ethics and competence?
    A. Current or impending financial difficulties or accounting problems.
    B. Current business developments
    C. Technical training and proficiency required in the circumstances
    D. Susceptibility of the entity's financial statements to material misstatement due to error or fraud.
    E. About company financial imbalance

17. In the formation of the European Monetary System, an attempt was made to allow for the problems of particular countries by allowing:
    A. Some member currencies to float
    B. Countries freely to change their central parities

C. Some members to join in the board band
D. Members freely to choose to join in the broad band of the system
E. Marginal intervention in support of currencies

18. The establishment of the single currency could be regarded as a success because:
    A. The value of the currency fell sharply in line with the ECB's wishes
    B. The value of bonds issued in euro surpassed the value of those issued in dollars
    C. No country has needed to be fined under the stability and growth pact
    D. The currency quickly challenged the dollar as the major world currency
    E. The value of the currency rose strongly in foreign exchange markets

19. The principal aim of the Maastricht convergence conditions was to:
    A. Prevent some EU countries from becoming monetary union members
    B. Highlight the differences in income levels among EU members
    C. Allow German monetary policy to dominate the EU
    D. Bring about cohesion among EU members
    E. Persuade financial markets that the euro, when established, would be a strong currency

20. Under the Sarbanes–Oxley Act, auditors cannot generally offer certain services to audit clients. Which of the following is a service that they can offer audit clients?
    A. Tax services
    B. Legal services
    C. Advice on accounting information system
    D. Corporate finance services
    E. Agency services

SECTION B
ANALYTICAL QUESTIONS 40 MARKS

1. Sir David Tweedie, chairman of the International Accounting Standards Board, is quoted as saying that the IASB and the FASB will eventually merge. "U.S. standards and ours will become so close that it will be senseless having two boards, and they will merge eventually. Ultimately, it doesn't make sense having two standards producing the same standards."

   Required:

   a. Compare and contrast the two boards in terms of their composition and standard-setting processes.

   (2.5 Marks)

   Rubrics:
   Compare composition & standard setting process of IASB & IFAC.

   b. Why is so much attention paid to convergence between International Financial Reporting Standards (IFRS) and U.S. GAAP and not to convergence between IFRS and other national accounting standards? What evidence is there of the direction of convergence: Is U.S. GAAP converging to U.S. GAAP, or are they converging towards each other? ***(2.5 Marks)***

Rubrics:
Differentiate U.S. GAAP & IFRS methodology, Arguments for convergence.

c. U.S. companies must use U.S. GAAP in their financial statements, not IFRS. Why should U.S. accountants, analysts, and other involved in financial reporting need to know about IFRS? ***(2.5 Marks)***

Rubrics:
Write 2 valid reasons to support your arguments.

d. Will the IASB and FASB eventually merge, or they remain separate accounting standard-setting bodies? Why do you say so? ***(2.5 Marks)***

Rubrics:
Write 8 phases on convergence.

2. The summarized balance sheet of a company is given below:

Liabilities	Amount	Assets	Amount
Equity capital	1,100,000	Fixed assets (less depreciation)	1,400,000
Long-term debts	700,000	Cash and Account receivable	1,300,000
Short-term debts	900,000		
	2,700,000		**2,700,000**

If the current price index is 290 and the price index at which fixed assets and long-term debts were acquired is 160.

Required:

a. Why are financial statements potentially misleading during periods of changing price? ***(5 Marks)***

b. What is the amount of purchasing power gains or losses? ***(5 Marks)***

Rubrics:

a. Give at least 3 reasons

b. Calculation with statement

3. A Chinese manufacturing subsidiary produces items sold in Australia. The items cost the equivalent of \$7.00 to produce and are sold to customers for \$9.50. A Cayman Islands subsidiary buys the items from Chinese subsidiary for \$7.00 and sells them to the Australian parent for \$9.50.

Required:

a. Calculate the total amount of income taxes paid on these transactions. What are the implications for the company and the taxing authorities involved? ***(5 Marks)***

b. Consider the statement "National differences in statutory tax rates are the most obvious and yet least significant determinants of a company's effective tax burden." Do you agree? Explain. ***(5 Marks)***

Rubrics:

a. Calculate tax and give two implications

b. Give 3 reason for your answer

4. Infosys Technologies regularly provides investors with a performance measure called economic value-added (EVA). Originally pioneered by GE, EVA measures the profitability of a company after deducting not just the cost of borrowing but also the firm's cost of equity capital. So, EVA is the after-tax return on capital employed (adjusted for the tax shield on debt) less the cost of capital employed. Companies that earn a higher return on capital employed than its cost of capital create value for its shareholders. Those that do not destroy shareholder value.

EVA calculations for Infosys for 2006.

Cost of Capital:	
Cost of risk-free debt (%)	7.50
Market premium	7.00
Beta variant	0.78
Cost of equity (%)	12.96
Average debt/Total capital (%)	-
Cost of debt – net of tax (%)	NA
Weighted average cost of capital (%)	12.96
Average capital employed	6,177
PAT as a percentage of average capital employed (%)	40.14
Economic Value Added:	
Operating profit (excluding extraordinary income)	2,654
Less: Taxes	313
Less: Cost of capital	801
EVA	1,540
Ratios:	
EVA as a percentage of average capital employed (%)	24.93

Required:

a. Did Infosys create value for its shareholders? Justify your answer with calculation. ***(5 Marks)***

Rubrics:

Give 3 justification for your answer.

b. Is EVA a useful performance metric relative to net income? (Compare PAT or profit after tax, and EVA to average capital employed.) ***(5 Marks)***

Rubrics:

Support answer with calculation.

SECTION C
APPLICATION BASED QUESTIONS **40 MARKS**

1. Ninsuvaan Corporation, a U.S. subsidiary in Bangkok, Thailand, begins and end calendar year with an inventory balance of 500 million baht. The dollar/baht exchange rate on January 1 was \$0.02 = 1 baht. During the year, the U.S. general price level advances from 180 to 198, while the Thai general price level doubles. The exchange rate on December 31 was \$0.015 = 1 baht.

Required:

a. Using the temporal method of translation, calculate the dollar equivalent of the inventory balance by first restating for Thai inflation, then translating to U.S. dollars. ***(3 Marks)***

b. Repeat part (a) but translate the nominal baht balances to dollars before restating for U.S. inflation. ***(3 Marks)***

c. Which dollar figure do you think provides the more useful information? ***(1 Marks)***

d. If you are dissatisfied with either result, suggest a method that would provide more useful information than those in parts (a) and (b). ***(3 Marks)***

2. PetroChina Company Limited (PetroChina) was established as a joint stock company under the company law of the People's Republic of China in 1999 as part of the restructuring of China National Petroleum Corporation. PetroChina is an integrated oil and gas company with operations in virtually every aspect of China's oil and gas industry, including exploration and production, refining and marketing, natural gas transmission, and petrochemicals. PetroChina manages some 70 percent of China's oil and gas reserves and 45 percent of its oil-refining capacity. Its shares were listed on the Hong Kong and New York Stock Exchanges in 2000.

You are an equity research analyst and have been asked to prepare a research report on PetroChina. Your business strategy analysis indicates that PetroChina's sales growth and financial performance can probably be sustained. However, although your qualitative analysis has yielded promising results, you are concerned that your financial analysis will be difficult due to accounting and audit-quality issues.

You start your analysis by becoming familiar with the accounting principles used to prepare PetroChina's financial statements filed with the U.S. Securities and Exchange Commission. You are encouraged that the company states that its financial statements conform to IASB standards but realize that how accounting standards are applied is as important as the standards themselves.

Required:

a. As much as possible, assess the extent to which Petro China's accounting principles conform to IASB standards. ***(3 Marks)***

   Rubrics: Give 3 reasons in support of your answer.

b. How reliable is your assessment? ***(2 Marks)***

c. What further information would help your assessment? ***(2 Marks)***

d. Does the study report provide information useful in your assessment? Explain.

   Rubrics: Give 2 reasons ***(3 Marks)***

3. Slovenia Corporation manufactures a product that is marketed in North America, Europe, and Asia. Its total manufacturing cost to produce 100 units of product X is $2,250 detailed as follows:

Raw material	$500
Direct labour	$1000
Overhead	$750
Total	**$2250**

The company bases its selling price on a cost-plus formula.

Required:

a. What would be Slovenia Corporation's selling price per unit if it wants a gross profit of 10 percent above cost? ***(5 Marks)***

   Rubrics: Show calculation.

b. Slovenia 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 Slovenia Corporation's allowable costs? Assume that the company still wants a profit margin of 10 percent of its allowable costs. What does your calculation imply about its manufacturing costs? ***(5 Marks)***

Rubrics: Show calculations with 2 reasons to justify the answer.

4. Great West States (GWS) is a railroad company operating in the Western United Sates, Juanita Salazar is risk manager of GWS. At the direction of the company's chief executive officer, she is searching for ways to handle the company's risks in a more economical way. The CEO stressed that Juanita should consider not only pure risks but also financial risks, Juanita discovered that a significant financial risk facing the organization price risk – the risk of a significant increase in the price of fuel for the company's locomotives. A review of the company's income and expense statement showed that last year about 28 percent of its expense were related to fuel oil.

   Juanita was also asked to determine whether the installation of a new sprinkler system at the corporate headquarters building would be justified. The cost of the project would be \$60,000. She estimates the project would provide an after-tax net cash flow of \$45,000 per year for three years, with the first of these cash flows coming one year after investment in the project.

   GWS is considering expanding its routes to include Colorado, New Mexico, Texas and Oklahoma. The company is concerned about the number of derailments that might occur. Juanita ran a regression with "thousands of miles GWS locomotives travelled" as the independent variable and "number of derailments" as the dependent variable.

   Results of the regression are as follows:

   $Y = 2.31 + 0.022X$

   With the expansion, GWS trains will travel an estimated 640,000 miles next year.

   Required:

   a. With regard to the fuel price risk:

   1. Discuss how Juanita could use futures contracts to hedge the price risk. ***(2 Marks)***

   2. Discuss how a double-trigger, integrated risk management plan could be employed. ***(2 Marks)***

   b. What is the net present value (NPV) of the sprinkler system project, assuming the rate of return required by GWS investors is 10 percent? ***(5 Marks)***

   Rubrics: Show calculation with explanation.

   c. How many derailments should Juanita expect next year, assuming the regression results are reliable and GWS goes ahead with the expansion plan? ***(1 Marks)***

The End