

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER DECEMBER 2014

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B.COM IV

TITLE OF PAPER : International Accounting

COURSE CODE : AC 421

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS
- 1 There are four (4) questions, answer all.
 - 2 Begin the solution to each question on a new page.
 - 3 The marks awarded for a question are indicated at the end of each question.
 - 4 Show the necessary working.

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

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SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

- a) Discuss briefly the techniques a company might use to hedge against foreign exchange risk involved in foreign trade. (10 Marks)
- b) It is 1 April and Kuhle plc expects to receive \$2 million on the 30th June.

The current spot rate is \$/£ 1.5190 and Kuhle expects that this rate will move in their favour.

They have purchased from the bank an option to sell \$2 million on 30 June at an exercise price of \$/£ 1.5200, and the bank have charged a premium of £50,000.

Show the outcome on 30 June if the spot exchange rate on that date is:

(i) \$/£ 1.5180 (5 Marks)

(ii) \$/£ 1.6153 (5 Marks)

- c) Little plc is a medium sized UK company with export and import trade with the USA. The following transactions are due within the next six months. Transactions are in the currency specified.

Purchases of components, cash payment due in three months: \$116,000.

Sale of finished goods, cash receipt due in three months: \$197,000.

Purchase of finished goods for resale, cash payment due in six months: \$447,000.

Sale of finished goods, cash receipt due in six months: \$154,000.

Exchange rates (London market)

	\$/£
Spot	1.7106 - 1.7140
Three months forward	1.7024 - 1.7063
Six months forward	1.6967 - 1.7006

Calculate the net sterling receipts and payments that Little might expect for both its three and six month transactions if the company hedges foreign exchange risk on the forward foreign exchange market. (10 Marks)

Total: (30 Marks)

QUESTION 2

Why are financial statements potentially misleading during inflation?

Total: (10 Marks)

QUESTION 3

- a) A growing number of MNC's around the world are listing their securities on foreign share exchanges . What is the motivation behind this? **(10 Marks)**
- b) According to Frost and Lang, what are the objectives of investor oriented markets? **(15 Marks)**

Total: (25 Marks)

QUESTION 4

- a) What are the objectives of the International Monetary Fund (IMF) **(10 Marks)**
- b) Harmonisation implies a reconciliation of different points of view. State the advantages of harmonisation and also the trends that indicate that there is little chance of ever achieving international harmonisation. **(25 Marks)**

Total: (35 Marks)