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**PRESIDENCY UNIVERSITY
BENGALURU**

SET A

**SCHOOL OF COMMERCE
END TERM EXAMINATION - JAN 2024**

Semester : Semester V - 2021

Course Code : COM2014

Course Name : International Accounting

Program : B.Com. Honors

Date : 10-JAN-2024

Time : 1:00 PM - 4:00 PM

Max Marks : 100

Weightage : 50%

Instructions:

- (i) Read all questions carefully and answer accordingly.
 - (ii) Question paper consists of 3 parts.
 - (iii) Scientific and non-programmable calculator are permitted.
 - (iv) Do not write any information on the question paper other than Roll Number.
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PART A

ANSWER ALL THE QUESTIONS

5 X 2M = 10M

1. A Canadian furniture company that sells locally will face economic risk from furniture importers, especially if the Canadian currency unexpectedly strengthens - Comment on economic risk
(CO1) [Knowledge]
2. Company A, based in Canada, reports its financial statements in Canadian dollars but conducts business in U.S. dollars. In other words, the company makes financial transactions in United States dollars but reports in Canadian dollars. The exchange rate between the Canadian dollar and the [US dollar](#) was 1:1 when the company reported its Q1 financial results. However, it is now 1:1.2 when the company reported its Q2 financial results. Comment on economic and translation risk given in the case.
(CO2) [Knowledge]
3. Write short notes on : Spot market and Forward market
(CO3) [Knowledge]
4. Why does rise in foreign exchange rate cause a rise in its supply?
(CO4) [Knowledge]
5. At today's spot exchange rates, 1 U.S. dollar can be exchanged for 11 Mexican pesos or for 110.87 Japanese yen. You have pesos that you would like to exchange for yen. Determine the cross rate between the yen and the peso.
(CO5) [Knowledge]

PART B

ANSWER ALL THE QUESTIONS

5 X 10M = 50M

6. £ 1 = dollar 1.35
Dollar 1 = Rs. 82
Calculate :
1. Amount of Rs for Pounds 2,200
 2. Amount of Dollars for Rs. 8,14,000
 3. Amount of Pounds for Dollar 3,240
 4. Amount of Pounds for Rs. 70,000

(CO1) [Comprehension]

7. Summarize the impact of foreign exchange rates on the company s financial statements. What risks do foreign exchange rates pose?

(CO2) [Comprehension]

8. H Ltd acquires all shares of S Ltd., from the given balance sheet given below, prepare consolidated balance sheet.

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Share capital of Rs. 10 each	5,00,000	2,00,000	Sundry Assets	6,00,000	3,00,000
Reserves	2,50,000	50,000	Investments in S Ltd (100% shares of S Ltd)	3,00,000	-----
P & L Account	80,000	40,000			
Creditors	70,000	10,000			

Profit and loss account balance of S Ltd is the profit made in the year

(CO3) [Comprehension]

9. In Malaysia, having incorrect transfer pricing can have significant consequences in the context of income tax.

The Malaysian tax authorities, known as the Inland Revenue Board of Malaysia (IRBM), place great emphasis on ensuring that transfer pricing is conducted in accordance with the arm's length principle and that taxable profits are accurately determined.

Should Transfer pricing controversy be a part of tax risk management?

(CO4) [Comprehension]

10. "Visits of foreign countries for sightseeing etc. by the people of India is on the rise"- (1) Comment on the impact of foreign exchange rate.

(2) From the given statement differentiate between transaction and economic exposure.

(CO5) [Comprehension]

PART C

ANSWER ALL THE QUESTIONS

2 X 20M = 40M

11. Alpha Limited exports refrigerator to Germany by importing all the components from Singapore. The company is exporting 2500 units at a price of Euro 500 per unit. The cost of imported components is S\$850 per unit. The other variables cost per unit are Rs. 2600. The cash flows in foreign currencies are due in six months.

After six months the exchange rates turn out as follows:

INR/EURO 52.00/05

INR/S\$ 27.70/75

Based on the following additional information calculate the loss/gain due to transaction and operating exposure if

- The contracted price of refrigerator is revised from EURO500 to Rs. 25,000
- Price elasticity of demand is estimated to be 1.5
- Payments and receipts are to be settled at the end of six months.

(CO4) [Application]

12. The Kellogg Company is the world's largest cereal company; second largest producer of cookies and crackers; and a major producer of snacks and frozen foods. The principal markets for these products include the U.S. and Europe. Kellogg's operations are managed in two major divisions –U.S. and International- with International further delineated into Europe, Latin America, Canada, Australia, and Asia. Looking at the results for Q3 2015 EPS declined by 10% on a year-to-year basis to USD 0.85 on sales of USD 3.3 billion. On currency-neutral basis, EPS would actually have increased by 2% to USD 0.96. That is, the strong USD in 2015 affected Kellogg's financial performance. This is not surprising. According to Kellogg's financial statements: "Our operations face significant foreign currency exchange rate exposure and currency restrictions which could negatively impact our operating results.

We hold assets and incur liabilities, earn revenue and pay expenses in a variety of currencies other than the U.S. dollar, including the euro, British pound, Australian dollar, Canadian dollar, Mexican peso, Venezuelan bolivar fuerte and Russian ruble. Because our consolidated financial statements are presented in U.S. dollars, we must translate our assets, liabilities, revenue and expenses into U.S. dollars at then-applicable exchange rates. Consequently, changes in the value of the U.S. dollar may unpredictably and negatively affect the value of these items in our consolidated financial statements, even if their value has not changed in their original currency"

Questions :

- What are the different techniques used by firms to manage their currency exposures.
- How firms measure and manage transaction exposure, economic exposure and translation exposure.

(CO4) [Application]