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**PRESIDENCY UNIVERSITY
BENGALURU**

SET B

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

Semester : Semester V - 2021
Course Code : COM2014
Course Name : International Accounting
Program : B.Com. Honors

Date : 11-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. Define transaction exposure
(CO1) [Knowledge]
2. Currency depreciation in the Indian Rupee in recent times has largely been attributed to high imports and debt servicing. - Comment on cross currency transactions.
(CO2) [Knowledge]
3. Consider ABC Co., a U.S.-based pen company manufacturing pens at a cost of 10 cents each in the U.S. ABC Co.'s subsidiary in Canada, XYZ Co., sells the pens to Canadian customers at \$1 per pen and spends 10 cents per pen on marketing and distribution. The group's total profit amounts to 80 cents per pen. Illustrate transfer pricing.
(CO3) [Knowledge]
4. Devaluation and Depreciation of currency is one and the same thing. Do you agree? How do they affect the exports of a country?
(CO4) [Knowledge]
5. You have access to the following quote in New York.
Japanese Yen 1 = \$0.0082-90
Korean Won 1 = \$0.0020-33
What is the bid-ask quote in Japanese Yen?
(CO5) [Knowledge]

PART B

ANSWER ALL THE QUESTIONS

5 X 10M = 50M

6. M/s Omega electronic Ltd., exports air conditioners to Germany by importing all the components from Singapore. The company is exporting 2,400 units at a price of Euro 500 per unit. The cost of imported components is S\$800 per unit. The other variables cost per unit are Rs. 2,500. The cash flows in foreign currencies are due in six months.

The current exchange rates are as follows :

Rs/ Euro 51.50/55

Rs/S\$ 27.20/25

You are required to calculate loss/gain due to transaction exposure.

(CO1) [Comprehension]

7. Two banks deal with cross currency transactions. Comment on Banks dealing with cross currency rates. Determine the cross rate between INR and GBP with the following information.

Bank A \$1 = INR 82

Bank B GBP 1= \$1.35

(CO2) [Comprehension]

8. From the balance sheet given below prepare a consolidated balance sheet of X Ltd., and its subsidiary Y Ltd. It may be assumed that Profit and loss appropriation account of Y Ltd is profit made before acquisition of shares of X Ltd.

Liabilities	X LTD	Y Ltd	Assets	X Ltd	Y Ltd
Share capital 2,00,000 shares of Rs. 80 each	1,60,00,000	-----	Land and building	1,52,00,000	-----
20,000 shares of Rs. 80 each	-----	16,00,000	Plant and machinery	22,40,000	3,20,000
General Reserve	80,00,000	-----	Shares in Y Ltd 18,000 shares of Rs. 80 each	28,80,000	-----
Profit and loss appropriation on a/c balance	16,00,000	24,00,000	Stock	48,00,000	8,00,000
Creditors	48,00,000	3,20,000	Debtors Cash at bank	32,00,000 20,80,000	11,20,000 20,80,000

(CO3) [Comprehension]

9. Discuss any criticisms or concerns raised by stakeholders regarding the IFRS Foundation's structure or the IASB's standard-setting activities.

(CO4) [Comprehension]

10. In January 1985, the German airline company, Lufthansa, signed a contract with the U.S. Corporation, Boeing, to purchase 20 Boeing 737 airplanes. Boeing agreed to deliver the airplanes to Lufthansa in one year later, in January 1986. Lufthansa agreed to make a single payment, of \$500 million, when the planes were delivered. The spot exchange rate at the time the contract was signed was DM3.2/\$, which corresponded to a deutschmark liability of 1.6 billion. Since 1982, the U.S. dollar had been steadily appreciating against the German mark. In January 1982, the dollar was trading around 2.3 marks, and by January 1985, it had risen to 3.2. This represented an appreciation of the dollar of just under 40%. Although many analysts had concluded that the U.S. dollar was overvalued during this period, it continued to show strength. Government intervention to weaken the dollar was not being discussed at this time. While many forecasters were predicting an eventual weakening in the U.S. dollar, for Lufthansa, the size of the contract, which was denominated in U.S. dollars, was seen as a too large of an uncovered transaction exposure.

Questions:

1. Explain the cross currency transactions done by the airline company?

(CO5) [Comprehension]

PART C

ANSWER ALL THE QUESTIONS

2 X 20M = 40M

11. Prepare consolidated Balance Sheet with the given information. When M Ltd Acquired 2000 shares in S Ltd the latter company had reserves amounting to Rs.5000 none of which have been distributed since then.

Liabilities	M Ltd	S Ltd	Assets	M Ltd	S Ltd
Share capital Issued shares of Rs. 10 each	1,20,000	30,000	Building	72,000	25,000
General reserve	25,000	6000	Plant and machinery	30,000	10,000
Profit and loss account	12,000	9000	Shares in Sld 2000 shares of Rs. 10 each	25,000	NIL
Creditors	15,000	5000	Stock Debtors	18,000 22,000	3000 7000
Total	1,72,000	50,000	Bank Total	5000 1,72,000	5000 50,000

(CO4) [Application]

12. Iris Oil Inc., a Houston-based energy company, has a large foreign currency exposure in the form of a 300 million CAD cash flow from its Canadian operations. The exchange rate risk to Iris Oil is that the CAD may depreciate against the USD in the next 90 days. In this case, Iris' CAD revenues, transferred to its USD account will diminish and its total USD revenues will fall. Iris Oil is considering different alternatives: (1) do nothing; (2) using a forward hedge, (3) using a money market hedge and (4) using an option hedge.

- 1) Explain the given situation and provide alternative solutions to Iris Oil Inc., which type of hedge to be adopted.
2) Suggest the best alternative, so that the company many not run in loss.

(CO4) [Application]