

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2015

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B.COM LEVEL 7

TITLE OF PAPER : International Accounting and Theory

COURSE CODE : AC 506

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.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

a) PQR Co is evaluating an investment proposal to manufacture Product W33, which has performed well in test marketing trials conducted recently by the company's research and development division. The following information relating to this investment proposal has now been prepared:

Initial investment	\$2 million
Selling price (current price terms)	\$20 per unit
Expected selling price inflation	3% per year
Variable operating costs (current price terms)	\$8 per unit
Fixed operating costs (current price terms)	\$170,000 per year
Expected operating cost inflation	4% per year

The research and development division has prepared the following demand forecast as a result of its test marketing trials. The forecast reflects expected technological change and its effect on the anticipated life-cycle of Product W33.

Year	1	2	3	4
Demand (units)	60,000	70,000	120,000	45,000

It is expected that all units of Product W33 produced will be sold, in line with the company's policy of keeping no inventory of finished goods. No terminal value or machinery scrap value is expected at the end of four years, when production of Product W33 is planned to end. For investment appraisal purposes, PQR Co uses a nominal (money) discount rate of 10% per year and a target return on capital employed of 30% per year. Ignore taxation.

Required:

(a) Calculate the following values for the investment proposal:

- (i) Net present value; (15 marks)
- (ii) Internal rate of return (5 marks)

(b) Discuss briefly your findings in each section of (a) above and advise whether the investment proposal is financially acceptable. (5 marks)

Total: (25 Marks)

QUESTION 2

ZPS Co, whose home currency is the dollar, took out a fixed-interest peso bank loan several years ago when peso interest rates were relatively cheap compared to dollar interest rates. Economic difficulties have now increased peso interest rates while dollar interest rates have remained relatively stable. ZPS Co must pay interest of 5,000,000 pesos in six months' time. The following information is available.

Spot rate:	12.500/12.582 pesos per \$
Six-month forward rate:	12.805/12.889 pesos per \$

Required:

- (a) Explain briefly the relationships between:
- (i) exchange rates and interest rates;
 - (ii) exchange rates and inflation rates. (6 marks)
- (b)
- (i) Define a money market hedge and, (4 marks)
 - (i) calculate how much it will cost the company to hedge the interest rate of 5 million pesos in six month's time. (5 Marks)

Total: (15 Marks)

QUESTION 3

- a) Briefly discuss the following terms :
- Translation risk (3 Marks)
 - Economic risk (3 Marks)
 - Transaction risk (3 Marks)
 - Money Market Hedging (3 Marks)
 - Repurchase agreements (3 Marks)
- b) What are the environmental factors that have an effect on accounting development? 15 Marks

Total: (30 Marks)

QUESTION 4

- a) Briefly describe the process of setting International Financial Reporting Standards used by the IASB. (20 Marks)
- b) Outline the benefits of International Auditing Standards. (10 Marks)

Total: (30 Marks)