Course No:	**University of Palestine**	**Instructor Name: Yousef ElMudallal**
Course Title: International Accounting		**Student No.: ________________**
Date: 20/01/2010		**Student Name: ______________**
No. of Questions: (5)	**Incomplete Exam.**	**College Name: _______________**
Time: 2:30 hours	**1st Semester 2009/2010**	**Dep. / Specialist: _____________**
Using Calculator (Yes)	**Total Grade:**	**Using Dictionary (yes)**

Answer the following four questions:

Q.1: True or False **12 marks**

1. The higher the price charged to the foreign subsidiary the more cash can be extracted without paying withholding taxes ( ).
2. Harmonization allows different countries to have different standards as long as the standards do not conflict ( ).
3. Governments in the various countries often scrutinize (audit) transactions to assure that sufficient profits are being recorded ( ).
4. One way to reduce Import duties is to transfer goods to a foreign operations in high prices ( )
5. The residence basis taxes income of the country's citizens regardless of source where they reside ( ).
6. Transactions are normally measured and recorded in terms of the currency where the company is located ( ).
7. The most common approach is to minimize costs is by shifting profits to higher tax rate jurisdictions ( )
8. When two countries assert the right to tax the same income, this is referred to as double taxation ( ).
9. The OECD recommends the use of tax havens for corporate income tax avoidance ( ).
10. Sales revenue item is normally translated at the same way under both current rate and temporal method of translation ( ).
11. An entity shall prepare all its financial statements including cash flow statement, using the accrual basis of accounting ( ).
12. The United Nations model treaty is designed to serve as a basis for treaties between developed and developing nations. ( ).

Q.2: Choose the correct Answer **8 marks**

1. **On December 1,2009 SMS entered into transaction to import raw material from a foreign country. The account is to be settled March 1 with the payment of 50,000 euros. The spot rate for euros on December 1 was $1.4/euro and on march 1 was $1.44/euro.**

What is the total amount of the transaction gain or loss be included in the net income:

(a) $2000 gain
(b) 992 loss
(c) $2000 loss
(d) No gain or loss recognized until the raw material are sold

2. **Which of the following item(s) might provide an MNC with tax planning opportunity as it decides where to locate foreign operations :**

(a) Difference in corporate income tax across countries
(b) Difference in Withholding taxes.
(c) Wither a country offer a tax holiday
(d) All of the above

3. **Poole Corporation is a U.S company with a branch in China. Income earned by the Chinese branch is taxed at the Chinese corporate income tax rate at 30 percent and at the rate of 35% percent in the United States. What is this an example of?**
   (a) Foreign tax credit
   (b) Double taxation
   (c) A tax treaty
   (d) Taxation of the bases of Consumption

- **GCO is a U.S. company has a branch in Foreign country where the corporate income tax rate is 22%, The U.S. corporate income tax rate is 35%. GCO has foreign source income in Mexico of $50,000 and pays $11,000 of corporate income tax in foreign country and $18,000 of other taxes.**
  For U.S tax purpose U.S Company's allowed either to (1) deduct all foreign taxes paid or (2) take a credit for foreign income tax paid.

4. **Net U.S. tax liability if GCO choose to deduct all foreign taxes paid**
   (a) 13,000
   (b) 22,000
   (c) 35,000
   (d) 21,000
5. **Net U.S. tax liability if GCO take a credit for foreign income tax paid**
   (a) 13,000
   (b) 22,000
   (c) 35,000
   (d) 21,000

Q.3: Essay questions: Answer the following questions **10 marks**

1. **What are the three possible solutions to double taxation?**
2. **What are possible objectives that a multinational company might wish to achieve through transfer pricing?**
3. **Speak briefly about the Norwalk Agreement.**
4. Define four of the following terms
   a. Territorial tax approach
   b. Tax haven
   c. Goal Congruence
   d. Negotiated price

e. Profit repatriation restriction
f. A permanent establishment

Q.4: Problems : Answer the following two Problems

Problem (1) **14 marks**

Crystal Exporting Co. is a U.S. wholesaler engaged in foreign trade. The following transaction is representative of its business dealings.

The company uses a periodic inventory system and is on a calendar-year basis. All exchange rates are direct quotations.

Dec. 1 Crystal Exporting purchased merchandise from Chang's Ltd., a Hong Kong manufacturer. The invoice was for 210,000 Hong Kong dollars, payable on April 1. On this same date, Crystal Exporting acquired a forward contract to buy 210,000 Hong Kong dollars on April 1 for $.1314.

April 1 Crystal Exporting submitted full payment of 210,000 Hong Kong dollars to Chang's, Ltd., after obtaining the 210,000 Hong Kong dollars on its forward contract.

Spot rates and the forward rates for the Hong Kong dollar were as follows:

	Spot Rate ($)	Forward Rate for April 1 Delivery ($)
Dec. 1	.1265	.1314
Dec. 31	.1259	.1308
April 1	.1430	

Required:

1. Prepare all journal entries for the Crystal Exporting Co. including December 31 adjusting entries to record the purchases.
2. Prepare all journal entries for the Crystal Exporting Co. including December 31 adjusting entries to record the forward contract assuming that the forward contract was entered into as cash flow hedge.

Problem (2) **18 marks**

Gramado Company was created as a wholly owned subsidiary of Porto Aleger Corporation on January, 1 Year 1. On that date, Porto Aleger invested $42,000 in Gramado's capital stock. Given the exchange rate on that date of $0.84 per cruzeiro, the initial investment was converted into 50,000 cruzeiros.

Other than the capital investment on January, 1 Year 1. There were no transactions involving stockholders equity in year 1.

Gramado cruzeiro – denominated for Year 2 are as follows:

Income Statement Year 1

Sales	540,000
Cost of good soled	(310,000)
Gross profit	230,000

Operating expenses	(108,000)
Income before tax	122,000
Income taxes	(40,000)
Net income	82,000

Statement of retained earnings Year 1

Retained earnings 1/1/Y2	145,000
Net income	82,000
Less: Dividends 12/1/Y2	(20,000)
Retained earning12/31/Y2	216,000

Balance Sheet

Dec. 31, Year 2	Cz .
Cash	50,000
Account receivables	100,000
Inventory	72,000
Property, plant, equipment	300,000
Less: Accumulated depreciation	(70,000)
Total assets	452,000
Liabilities	186,000
Capital stock	50,000
Retained earnings	216,000
Total liabilities. & equity	452,000

Relevant exchange rates as follows

	Dollars per **Cz**
January 1, Year 1	$0.84
Average for Year 1	0.80
December 31, Year 1	0.75
Average for Year 2	0.72
December 1, Year 2	0.71
December, 31/Y2	0.70

Required:

Translate the December, 31, Year 2 financial statements of the Gramado using current rate method.

Good Luck