

•ODTQOIN]

International Accounting

Frederick D. S. Choo

CaroD Ann Frost

Gary K. Meek

S H PRENTICE HALL
UPPER SADDLE RDVEIR, NEW JERSEY 07458

Preface xiii

CHAPTER 1 Introduction 1

An Example—Nikken Chemicals Co., Ltd. 4

A Brief History of International Accounting 5

How This Book Is Organized 5

Appendix 10

Cases 26

Crossing the Atlantic 26

CHAPTER 2 Development and Classification 28

Development 29

Comparative Development Patterns 34

The Macroeconomic Pattern 34

The Microeconomic Pattern 34

The Independent Discipline Approach 35

The Uniform Accounting Approach 35

Classification 36

Judgmental Classifications 36

Empirically Derived Classifications 38

Cases 48

Are Classifications of Accounting Outmoded? 48

Windsor Company 49

CHAPTER 3 Comparative Accounting I 50

Basic Concepts 51

Six National Financial Accounting Systems 53

France 53

Germany 57

<i>Japan</i>	60
<i>The Netherlands</i>	64
<i>United Kingdom</i>	69
<i>United States</i>	74

Cases 84

<i>A Rose by Any Other Name</i>	84	>
<i>Kiwis Cannot Fly; But at Least When Troubles Loom, They Keep Their Heads Out of the Sand</i>	91	

CHAPTER 4 Comparative Accounting II > 97

Reasons for Choosing These Four Countries 97

Some Observations About the Four Countries and Their Accounting

Four National Financial Accounting Systems 100

<i>Czech Republic</i>	100
<i>China</i>	103
<i>Taiwan</i>	109
<i>Mexico</i>	113

Cases 121

<i>Does Secrecy Pay?</i>	121
<i>After NAFTA</i>	123

CHAPTER 5 Reporting and Disclosure ' 125

Development of Disclosure 126

Voluntary Disclosure 126

Regulatory Disclosure Requirements 127

SEC Financial Reporting Debate 132

Annual Report Disclosure Practices in Developed Countries 133

<i>Disclosures of Forward-Looking Information</i>	134
<i>Segment Disclosures</i>	136
<i>Accounting Policy Disclosures</i>	139
<i>Cash Flow and Funds Flow Statements</i>	140
<i>Social Responsibility Disclosures</i>	143
<i>Special Disclosures for Nondomestic Financial Statement Users and Accounting Principles Used</i>	144
<i>Implications for Financial Statement Users and Managers</i>	148

Annual Report Disclosures in Emerging Market Countries 149

Cases 156

<i>Disclosure Harmonization</i>	156
<i>Disclosure Differences in Japan and the United States</i>	156

CHAPTER 6 Foreign Currency Translation 159

Reasons for Translation 159

Background and Terminology 160

The Problem 165

Financial Statement Effects of Alternative Translation Rates	165
Foreign Currency Translation	168
<i>Single-Rate Method</i>	168
<i>Multiple Rate Methods</i>	169
<i>Financial Statement Effects</i>	171
<i>Which is Best?</i>	173
<i>Translation Gains and Losses</i>	177
Translation Accounting Debates	179
<i>Pre-1965</i>	179
<i>1965 To 1975</i>	179
<i>1975 To 1981</i>	180
<i>1981-Present</i>	180
Features of Standard No. 52	180
The Debate Continues	184
<i>Reporting Perspective</i>	184
<i>What Happened to Historical Cost?</i>	185
<i>Concept of Income</i>	185
<i>Managed Earnings?</i>	185
<i>Foreign Currency Translation and Inflation</i>	186
Foreign Currency Translation Elsewhere	187
Current Trends	188
Appendix	189
Cases	200
<i>Regents Corporation</i>	200
<i>Managing Offshore Investments: Whose Currency?</i>	202

CHAPTER 7 Accounting for Changing Prices X 206

Why Financial Statements Are Potentially Misleading During Periods of Changing Prices	207
Types of Inflation Adjustments	208
<i>General Price Level Adjustments</i>	209
<i>Current Cost Adjustments</i>	211
<i>Which Method Is Best?</i>	213
International Perspective on Inflation Accounting	216
<i>United States</i>	216
<i>United Kingdom</i>	218
<i>Brazil</i>	219
<i>International Accountings Standards Committee</i>	223
Inflation Issues	224
<i>Inflation Gains and Losses</i>	224
<i>Holding Gains and Losses</i>	226
<i>Accounting for Foreign Inflation</i>	227
<i>Avoiding the Double-Dip</i>	228
Appendix A	231 -
Appendix B	237

Case	245
<i>Jayson Enterprises</i>	245
<i>Icelandic Enterprises, Inc.</i>	246

CHAPTER 8 International Accounting Harmonization j/248

Introduction	248
A Survey of International Harmonization	249
<i>Advantages of International Harmonization</i>	249
<i>Criticisms of International Standards</i>	250
<i>Reconciliation and Mutual Recognition</i>	251
<i>Evaluation</i>	251
<i>Applicability of International Standards</i>	252
<i>Some Significant Events in the History of International Accounting Standards Setting</i>	252
Overview of Major International Organizations Promoting Accounting Harmonization	253
International Accounting Standards Committee	255
<i>Development of International Accounting Standards</i>	259
<i>Recognition and Support for the IASC</i>	262
<i>Comparisons Between IAS and Other Comprehensive Bodies of Accounting Principles</i>	266
European Union (EU)	267
<i>Fourth Directive</i>	268
<i>Seventh Directive</i>	270
<i>Eighth Directive</i>	271
<i>Have-EU Harmonization Efforts Been Successful?</i>	271
<i>The EU's New Approach</i>	272
International Organization of Securities Commissions (IOSCO)	272
International Federation of Accountants (IFAC)	273
United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)	276
Organisation for Economic Cooperation and Development (OECD)	276
Conclusion	276
Appendix	277
Cases	287
<i>Are International Accounting Standards Worth Something?</i>	287
<i>Shanghai Tyre & Rubber Co., Ltd.</i>	288

CHAPTER 9 International Financial Statement Analysis 289 ^

Introduction	289
Business Analysis Framework	290
International Business Strategy Analysis	291
<i>Some Examples</i>	291
<i>Information Availability</i>	292
<i>Recommendations for Analysis</i>	292

Accounting Analysis	293
<i>Suggestions for the Analyst</i>	298
International Financial Analysis	298
<i>Ratio Analysis</i>	299
<i>Cash Flow Analysis</i>	305
<i>Coping Mechanisms</i>	306
International Prospective Analysis	308
Further Issues	313
<i>Information Access</i>	313
<i>Timeliness of Information</i>	317
<i>Foreign Currency Considerations</i>	319
<i>Differences in Statement Format</i>	322
<i>Language and Terminology Barriers</i>	324
Appendix A	325
Appendix B	329
Cases	335
<i>Accounting Quality Analysis</i>	335
<i>Restatement of International Accounting Standards to U.S. GAAP</i>	335

CHAPTER 10 Managerial Planning and Control (336

Long-Range Planning	337
<i>Planning Tools</i>	337
<i>Strategic Costing</i>	339
<i>Capital Budgeting</i>	340
<i>Financial Return Perspectives</i>	341
<i>Measuring Expected Returns</i>	342
<i>Multinational Cost of Capital</i>	346
Management Information Systems and Control	348
<i>Information and Information Systems</i>	348
<i>Issues in Financial Control</i>	351
Operational Budgeting	353
<i>Analysis of Exchange Rate Changes</i>	357
Performance Evaluation of Foreign Operations	361
<i>Consistency</i>	361
<i>Unit versus Managerial Performance</i>	362
<i>Performance Criteria</i>	363
<i>Measurement Issues and Changing Prices in Evaluation</i>	365
<i>Performance Standards</i>	373
<i>A Multinational Comparison</i>	375
Cases	383
<i>Foreign Operations Disclosures: A Tangled Affair</i>	383
<i>Assessing Foreign Subsidiary Performance in a World of Floating Exchange Rates</i>	383

CHAPTER 11	Financial Risk Management	387
Essentials		387
Why Manage Financial Risks?		388
Role of Accounting		389
<i>Identify Market Risks</i>		389
<i>Quantify Tradeoffs</i>	•	390
<i>Accounting for Hedge Products</i>		391
Foreign Exchange Risk Management		391
<i>Accounting and Conceptual Issues</i>		392
<i>Risk Management in a World of Floating Exchange Rates</i>		395
<i>Exposure. Management</i>		396
<i>Protection Strategies</i>		404
Accounting and Control for Financial Derivatives		407
<i>Foreign Exchange Forward Contracts</i>		408
<i>Foreign Exchange Options</i>		413
<i>Currency Swaps</i>	415	, ;
<i>Financial Futures</i>		417
<i>Recent Reporting Developments</i>		418
Financial Control		419
<i>Financial Control Points</i>		420
<i>Appropriate Benchmarks</i>		420
<i>Reporting Systems</i>		421
Cases		425
<i>Value at Risk: What Are Our Options?</i>		425
<i>Exposure Identification.</i>		426 [^]
CHAPTER 12	International Taxation and Transfer Pricing	427
Initial Concepts		428
Diversity of National Tax Systems		428
<i>Type of Taxes</i>		429
<i>Tax Burdens</i>		430
<i>Tax Administration Systems</i>		431
<i>Foreign Tax Incentives</i>		433
<i>International Harmonization</i>		433
Taxation of Foreign Source Income and Double Taxation		434
<i>Foreign Tax Credit</i>		434
<i>Limits to Tax Credits</i>		436
<i>Tax Treaties</i>		437
Tax Planning Dimensions		440
<i>Organizational Considerations</i>		440
<i>Subpart F Income</i>		441
<i>Offshore Holding Companies</i>		441
<i>Foreign Sales Corporations</i>		442
<i>Possessions Corporation</i>		442

<i>Financing Decisions</i>	442	
<i>Pooling of Tax Credits</i>	443	
<i>Cost Accounting Allocations</i>	444	
<i>Logistics and Transfer Pricing</i>	444	
International Transfer Pricing: Complicating Variables		445
<i>Tax Considerations</i>	445	
<i>Tariff Considerations</i>	447	
<i>Competitive Factors</i>	448	
<i>Environmental Risks</i>	449	
<i>Performance Evaluation Considerations</i>	449	
<i>Accounting Contributions</i>	450	
Transfer Pricing Methodology	450	
<i>Cost Versus Market Versus ... ?</i>	450	
<i>Comparable Uncontrolled Pricing Method</i>	451	
<i>Resale Pricing Method</i>	451	
<i>Cost-Plus Pricing Method</i>	453	
<i>Other Pricing Methods</i>	454	
<i>Comparable Profits Method</i>	454	
<i>Comparable Uncontrolled Transactions Method (CUT)</i>	454	
<i>Profit Split Methods</i>	454	
Transfer Pricing Practices	455	
<i>Size</i>	456	
<i>Degree of International Involvement</i>	456	
<i>Organizational Design</i>	456	
<i>Cultural Influences</i>	457	
Transfer Pricing and Government Relations		458
Cases	464	
<i>Love for Sale: Mixed Emotions</i>	464	
<i>Congress Giveth and Congress Taketh</i>	465	

Index 467