

ACCOUNTING

An International Perspective

Gerhard G. Mueller

Helen Gernon

Gary Meek



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An International Perspective

A Supplement to Introductory Accounting Textbooks

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ACCOUNTING

An International Perspective

Irwin Perspectives in International Business

Series Coeditors

James E. Harf *The Ohio State University*

Robert R. Miller *University of Houston*

B. Thomas Trout *University of New Hampshire*

To Our Families

PREFACE

Accounting: An International Perspective is one of a series of six volumes produced under the direction of the Consortium for International Studies Education with support from the U.S. Department of Education. The specific aim of the series is to provide an international dimension for the core functional courses in business administration for colleges and universities. The first four volumes are intended to be used in conjunction with introductory textbooks in accounting, finance, management, and marketing. The other two books provide supplemental material for the introduction to business course; the first discusses international environmental matters, while the second addresses managerial issues. Books in the series have been tailored to supplement individual chapters in many of the leading textbooks in the core areas covered.

Each volume was produced under the general direction of a team leader. In most cases this leader also coauthored the respective area book. Team leaders were:

- Accounting: Professor Gerhard G. Mueller, University of Washington
- Finance: Professor Arthur I. Stonehill, Oregon State University
- Management: Professor R. Hal Mason, University of California, Los Angeles
- Marketing: Professor Philip R. Cateora, University of Colorado
- Introduction to Business: Professor Robert R. Miller, University of Houston—University Park

Each of these leaders has authored or coauthored leading international textbooks in their areas of scholarly expertise. Each has also produced numerous technical articles. Volumes in this series and their authors are:

Accounting: An International Perspective, by Gerhard G. Mueller, Helen Gernon (University of Oregon), and Gary Meek (Oklahoma State University).

Finance: An International Perspective, by Arthur I. Stonehill and David K. Eiteman (UCLA).

Management: An International Perspective, by R. Hal Mason and Robert Spich (UCLA).

Marketing: An International Perspective, by Philip R. Cateora and Susan M. Keaveney (University of Colorado).

Introduction to Business: An International Perspective, by Robert R. Miller, and Janice J. Miller (University of Houston—University Park).

Issues for Managers: An International Perspective, by John A. Kilpatrick (University of Northern Colorado) and Janice J. Miller.

Codirectors of the project for the Consortium were James E. Harf (The Ohio State University), Robert R. Miller, and B. Thomas Trout (University of New Hampshire).

Department of Education sponsorship of this project was a part of its efforts to expand international awareness in U.S. higher education. In this regard, the Department's interests coincided with those of the American Assembly of Collegiate Schools of Business (AACSB), which recently included internationalization of curricula as a requirement for accreditation of American college and university degree programs in business administration. This emphasis by AACSB is likely to be strengthened in coming years, and the series of which this volume is a part is dedicated specifically to satisfying the AACSB mandate.

Accounting: An International Perspective is the only existing supplement to introductory accounting textbooks to provide an international curriculum dimension. Other international subject matter supplements address intermediate, advanced, and theory/conceptually-oriented accounting courses.

The book has 10 topical chapters plus an introduction and an epilogue. Six chapters cover financial accounting matters; four are devoted to managerial accounting issues. The chapters are modular in that each can be used alone or in combination with any other chap-

ter(s) in the book. Brief descriptions of chapter contents appear at the end of the Introduction.

Appropriate discussion questions and minicases conclude each of the 10 chapters. These study items are intended as assignment/discussion materials. The instructors' manual contains not only suggested answers and solutions but sample assignment sequences, lecture outlines, and similar pedagogic aids. The authors made all possible efforts to produce a simple, clearly written, and user friendly educational package. College and university freshmen and sophomores are our target audience.

It took approximately one year to plan and write this book and another year to have it reviewed and tested in actual classroom environments. The latter occurred at California State University at Los Angeles, the University of Connecticut, the University of Iowa, and Pacific Lutheran University. Two workshops were held at Seattle, Washington, and Portland, Oregon, to present the volume to groups of community college, college, and university accounting educators and to assess its merits. The Oregon event was sponsored by the Oregon International Council. We are thankful for all the comments and suggestions received during these procedures. The published version of our volume differs rather markedly from its initial draft.

There is also a caveat. International accounting as a field of study has matured considerably during the past two decades. A dozen or so international accounting textbooks are presently in print. Clearly the boundaries of the field have widened and its depth increased. Thus a slim soft-cover supplement can encompass only highlights and cover only selected topics. If a reader misses some favorite international accounting subject in the pages that follow, we apologize in advance.

ACKNOWLEDGMENTS

The authors and the Consortium gratefully acknowledge the support of the Department of Education for this project and, more particularly, for this volume. In addition, many individuals made significant contributions. Gail McCutcheon, of The Ohio State University, assisted in field testing. Michael A. Diamond (Cal State LA) and Daniel L. Jensen (Ohio State) accomplished in-depth reviews of early drafts. Sung Choi (University of Iowa), Richard F. Kochanek (University of Connecticut), Michael A. Diamond, and Judith A. Ramaglia (Pacific Lutheran) tested some or all of the manuscript in their respective classrooms during the fall of 1984. Students and instructors completed evaluation forms and furnished additional feedback. Andrea Valesko (Andrea's Typing & Transcribing) typed (and retyped) the volume. We extend a sincere vote of thanks to the entire team!

All sins of omission or commission are to be debited to the authors. Comments from users will be credited—gladly and without deferral. We hope to hear from you if you have occasion to use this book.

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Seattle, WA

Helen Gernon

Eugene, OR

Gary Meek

Stillwater, OK

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Introduction

Accounting is often referred to as the language of business. It serves as the common denominator for a great variety of business intelligence including actual economic events and transactions. The products of accounting processes include financial reports and budgets, cost determinations and national deficit estimates, investment analyses, and income tax returns. In other words, accounting provides many useful services throughout society. It affects quite a number of conditions and relationships in our day-to-day lives.

Accounting Has Environmental Impact!

One of the languages that accounting must “speak” is international. Much has been said and written about the multinational nature of today’s world economy. Volkswagen, Toyota, and Mercedes Benz automobiles are found around the globe. Japanese TV sets are commonplace worldwide, and Boeing airplanes deliver passengers to every major airport in the world. Italian shoes, American Coca-Cola, and Japanese cameras can be bought in all but a few isolated countries. This is truly an age of global economic interdependence.

Business enterprises are the main carriers of economic internationalism. Most of today’s larger corporations can be characterized as multinational. David E. Lilienthal defines *multinational corporations* as “Corporations which have their home in one country but operate and live under the laws and customs of other countries as well.”¹

From a performance perspective, Yair Aharoni comments, “A company is multinational if it does business in more than one country in such a volume that its well-being and growth rest in more than one country.”²

¹Quoted in Yair Aharoni, “On the Definition of a Multinational Corporation,” in *The Multinational Enterprise in Transition*, ed. A. Kapoor and Phillip D. Grub (Princeton, N.J.: Darwin Press, 1972), p. 4.

²Ibid., p. 10.

Finally, Peter Drucker takes a behavioral approach. To him a U.S.-based multinational firm is one

(W)ith corporate headquarters in the United States, but in their organization, their business, their scope, they are worldwide . . . corporate top management is not concerned with any one region or territory . . . an international business demands of its management people that they think and act as international businessmen in a world in which national passions are as strong as ever.³

If sales outside the home country are taken as an indicator of corporate internationalism, there can be no question about the multinational nature of contemporary business. Exhibit A lists the 5 largest U.S. corporations and 5 of the 10 largest non-U.S. corpora-

EXHIBIT A World's Largest Privately Owned Corporations, 1984

<i>U.S. Based^a</i>	<i>Total Sales^c</i>	<i>Non-U.S. Sales^d</i>	<i>Percent Non-U.S.</i>
Exxon	\$90,854,000	\$66,759,500	73%
General Motors	83,889,900	20,133,600	24
Mobil	56,047,000	32,345,000	58
Ford Motor	52,366,400	15,578,000	30
Texaco	47,334,000	23,714,000	50

<i>Non-U.S. Based^b</i>	<i>Total Sales^c</i>	<i>Sales outside Home Country^d</i>	<i>Percent Non-domestic</i>
Royal Dutch/Shell Group ^e	\$80,550,885	\$48,008,300 ^f	60%
Mitsui & Co., Ltd.	71,913,644 ^d	27,627,653	38
C. Itoh & Co., Ltd.	60,104,929 ^d	25,845,000	43
British Petroleum	50,859,000	25,513,600	50
Toyota Motor ^e	19,741,094	9,081,000	46

^a*Fortune*, April 29, 1985, p. 266.

^b*Forbes*, July 29, 1985, p. 162 (ranked 1, 2, 4, 6, and 10, respectively).

^cAmounts in \$000s as reported in *Fortune* and *Forbes*; foreign currency amounts translated to U.S. dollars at average official exchange rates for each company's fiscal year.

^dAmounts in \$000s as reported in published annual reports.

^e1983 data. 1984 total sales for Royal Dutch: \$84.9 million; for Toyota: \$25.2 million.

^fSales outside Europe.

³*Ibid.*, p. 13.

tions. Total 1984 sales for U.S.-based enterprises are presented along with the non-U.S. component of such sales, which ranges from 73 percent to 24 percent. Non-U.S.-based companies have sales outside their respective home countries ranging from 60 percent to 38 percent. Thus, large privately owned corporations have similar international operating patterns the world over.

The amounts appearing in Exhibit A make the point convincingly, both in absolute and relative terms. International involvement by large business enterprises is the norm rather than the exception, and the same holds true when the list is extended to include the 3,000 largest corporations in the world.

Professional accounting services are also delivered on an international scale. Such services include the independent audit of financial statements prepared by management, tax research and consulting, and information systems design. Professional accounting service firms range from single individuals to mammoth multinational partnerships. Exhibit B shows the extent of international involvement among the world's "Big 9" international professional accounting service firms.

Since substantial business activities and professional accounting service activities are devoted to international (also called multinational, transnational, or nondomestic) economic exchanges, it stands to reason that accounting as a professional field and as an intellectual discipline is internationalized as well. The need for this internation-

EXHIBIT B World's Largest Professional Accounting Service Firms
(1984 fee revenue in \$ millions)

<i>Firms</i>	<i>Worldwide</i>	<i>U.S.^b</i>	<i>Percent Non-U.S.</i>
Arthur Andersen & Co.	\$1,388 ^a	\$1,028	26%
Arthur Young & Company	1,060	465 ^c	56
Coopers & Lybrand	1,250	700 ^c	44
Deloitte Haskins & Sells	940 ^a	463	51
Ernst & Whinney	1,068 ^a	712	33
Klynveld Main Goerdeler & Co.	1,000 ^c	234 ^d	77
Peat, Marwick, Mitchell & Co.	1,340 ^a	909	32
Price Waterhouse	1,150 ^a	540 ^c	53
Touche Ross & Co.	904	432	52

^a*Public Accounting Report*, January 1985, p. 7.

^b*Public Accounting Report*, April 1985, p. 19.

^cEstimated.

^d*Public Accounting Report*, June 1985, p. 6; for fiscal year ended March 31, 1985. U.S. firm is KMG Main Hurdman.