

International

Accounting



Fourth Edition

Holt • Hein

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In Loving Memory of
Dr. and Mrs. Lawrence Hein,

With Love to
Brad Paul Holt,

and

With special thanks and appreciation to
Terence Crosta

PREFACE

As the rate of global business continues to accelerate, it becomes increasingly important for business, and particularly accounting students, to understand international accounting as early as possible in their academic careers. A basic knowledge of accounting is necessary to conduct business and understand financial statements. To grasp international business, a student must have adequate knowledge of international accounting.

The third edition of *International Accounting* has been updated to bring students up to date with recent developments in the world of international business and in international accounting. As in earlier editions, the text is written primarily from a U.S. point of view, comparing U.S. rules of accounting with those of other countries and other organizations such as the International Accounting Standards Committee and European Union. The text is intended for students who have completed at least one and preferably two or more semesters of accounting, but students at any level will benefit from an understanding of the basic issues in international accounting and business.

The text has been updated, revised and rearranged to provide greater clarity and continuity but without changing the basic format of earlier editions. To illustrate some of the issues, cases have been added and more tables have been included where appropriate. The primary goals and learning objectives of each chapter are to be found at the beginning of the chapter.

The number of countries chosen for review and comparison of accounting methods has been extended in recognition of their increasing importance in international trade. The glossary has also been expanded to provide more definitions of terms used in the text.

Chapter 1 introduces the students to some of the environments in which business functions and explains how countries' ethical, economic, cultural and other environments affect accounting methods. In addition, a brief history of accounting in the U.S. is provided to help students understand how U.S. accounting standards evolved.

Chapter 2 defines standardization and harmonization and discusses the benefits and problems expected from such efforts to reduce the number of acceptable accounting methods. While the first part of the chapter is rather theoretical, it is followed by specific, major differences in accounting methods used around the world.

Chapter 3 identifies and examines international organizations which are working towards reducing differences in accounting methods. The International Accounting Standards Committee, European Union, Organization for Economic Cooperation and Development, International Organization of Securities Commissions, International Federation of Accountants and the United Nations are discussed in some detail while other organizations are briefly mentioned.

Chapter 4 introduces four trading areas, the European Union, Eastern Europe, North America and the Pacific Rim countries, and reviews them in some general terms. The importance of the Bretton Woods Agreement is discussed as instrumental in initiating world trading areas.

Chapter 5 moves from the somewhat general material in earlier chapters into accounting methods in selected countries. The countries are chosen for examination because of their economic importance or differences in environments. The countries selected in this chapter are Canada, Mexico, Brazil, the People's Republic of China and Japan.

Chapter 6 continues the review of accounting methods in selected countries: Germany, Hungary, the United Kingdom, India and Islamic countries.

Chapter 7 reviews maquiladoras, foreign manufacturing plants in Mexico. They are rarely mentioned in accounting texts, but their importance to both Mexico and the United States and their unique status in particular justifies some detailed examination.

Chapter 8 introduces more technical topics. Multinational companies' financial reporting issues such as disclosure, consolidation, social responsibility and inflation accounting are included.

Chapter 9 looks at how to analyze foreign financial statements. By this point, the student should be thoroughly aware that financial information in various countries is different both in theory and presentation from the information presented in the United States. This chapter helps the student tie the various international accounting concerns together.

Chapter 10 on managerial accounting includes the all-important transfer pricing topic and other managerial concerns such as exchange risk and evaluation of the performance of foreign operations.

Chapter 11 on international taxation discusses various kinds of taxes encountered internationally, accounting for taxation and tax havens. An overview of taxation in various countries is presented along with taxation of international transactions from the U.S. perspective.

Chapter 12 on international auditing gives the student a basic understanding of auditing in various countries, including auditor qualifications.

Chapter 13 deals with accounting for foreign currency transactions and forward contracts.

Chapter 14 looks at foreign currency translation. In the first part of this chapter, translation as required by SFAS #52 is presented; in the second part, translation theory and alternative methods are discussed.

Each chapter ends with a set of thought-provoking questions which the student may answer in writing as a homework assignment or discuss in groups and present to the rest of the class. Several groups could be formed, each of which would be responsible for thoroughly answering one question.

A list of additional readings is attached at the end of the chapters to help the student get started on further study or to assist in the initial search for a research project.

The text is designed to be used for a full semester at any time after the student has successfully completed the first or second accounting course. It may be expanded through the use of various projects and written assignments as well as additional out-of-class research for more advanced students.

The text may also be used as supplemental information to introduce accounting students, at any stage in their academic life, to some of the basic aspects of international accounting. The first seven chapters are particularly helpful in supplementing undergraduate students' knowledge of the realm of possibilities available to accountants in an international setting. Since chapters 8–14 are more technical, they are appropriate for more advanced undergraduate accounting majors or graduate students.

PRIMARY GOALS OF CHAPTER:

The student should learn what international accounting means, how it is different from national accounting and why international accounting developed differently in various countries.

LEARNING OBJECTIVES

- ▶ The ethical environments in which international accountants must operate. The ethical situations in various countries.
- ▶ The Foreign Corrupt Practices Act. Its objectives and how it affects accounting requirements.
- ▶ Foreign exchange rates, how they operate and their importance.
- ▶ The importance of inflation on accounting methods.
- ▶ How a country's history influences its accounting.
- ▶ The relationship between legal systems and accounting.
- ▶ The effect of political systems such as nationalization on business and accounting.
- ▶ Cultural environments and how they differ.
- ▶ The role of the SEC in the development of U.S. accounting rules.
- ▶ The role of the private sector in the development of U.S. accounting rules.
- ▶ The history of accounting standard setting in the United States.
- ▶ How accounting standards in the United States are set today.

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Belgium

Brazil

Cayman Islands

Chile

Denmark

France

Germany

Hong Kong

Japan

Korea

Mexico

The Netherlands

People's Republic of China

Saudi Arabia

South Africa

Sweden

Switzerland

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