

INTERNATIONAL ACCOUNTING

INTERNATIONAL ACCOUNTING

A User Perspective

Fifth Edition

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To My Family

— Shahrokh Saudagaran

To Kathy

— L. Murphy Smith

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PREFACE

Introduction

As business and capital markets have continued to grow more globalized, the need for cross-border financial information has correspondingly increased. This has brought international accounting to the forefront. As products, services, and capital increasingly cross domestic borders, the likelihood that various parties to business transactions are based in different countries increases. These parties must contend with the reality that information on their business partners often exists in an accounting language other than their own. In order to make informed decisions in a global environment, one needs to be educated in international accounting. While the required level of detailed knowledge of international accounting issues varies between organizations, there are very few businesses in the twenty-first century that are not impacted by globalization and hence by some aspect of international financial reporting.

Target Audiences

The primary audiences for this book are upper-division undergraduate students, graduate students, and participants in executive development and corporate university programs globally. In undergraduate programs, most Advanced Accounting books focus on business combinations with little or no coverage of international accounting topics. The typical Advanced Accounting book has a section on foreign currency translation as its ode to international accounting. *International Accounting: A User Perspective* provides a much more comprehensive coverage of international accounting issues than is available in Advanced Accounting texts. Given the target audience, every effort has been made to present the material completely yet succinctly and in a writing style that is easy to read for a global

audience. In terms of its coverage of international accounting issues, this book is placed somewhere between Advanced Accounting texts that cover very little and traditional international accounting texts that are too long and expensive for most undergraduate, graduate and executive programs. Similar to previous editions, the fifth edition has been kept to a reasonable length, ensuring that most of the chapters will be actually used in the programs and courses where the book is adopted.

User Perspective

This book is designed to provide an understanding of international accounting issues to students in graduate and undergraduate business programs and for executives involved either directly or indirectly in international business. As indicated in its title, the book takes a user perspective (as opposed to a preparer perspective) to international financial reporting. This approach makes sense because most business executives are more likely to be users of transnational financial information than preparers of it. Very few managers are ever called upon to prepare financial statements in their domestic environment, let alone in another country. However, many executives regularly find themselves making decisions based on financial information that originates in another country. This can take the form of evaluating the performance of a subsidiary, affiliated organization or joint venture in another country, making credit decisions on customers located abroad, or making cross-border investing and financing decisions based on opportunities in other countries. Being educated in international accounting is an important asset in the portfolio of skills required of managers in companies engaged in global business.

Research Component and Other Distinguishing Features

An important feature of the book is that it facilitates the transfer of international accounting research to students who typically would not access the academic literature on their own. It does this by discussing research findings where appropriate and by extensively citing scholarly work related to the subject matter. Since much of the text is based directly or indirectly on research evidence it helps bring “state of the art” international accounting material into the classroom.

The extensive coverage of **Financial Reporting in Emerging Capital Markets** is another distinguishing feature of this book. As these countries continue to grow in importance so does the need to learn of the special accounting issues facing them. Other distinguishing features of the book are its coverage of accounting for changing prices, and social reporting and the audit of social reports.

Summary of the Book

Based on feedback received from reviewers and other colleagues that have used the book, the length and coverage has been kept similar to the earlier editions. However, revisions have been made as necessitated by recent developments in the business and research arenas as well as the move towards convergence of financial reporting standards worldwide. The book is organized as follows:

- *Chapter 1* examines the interaction between accounting and its environment, the diverse roles of accounting in countries, the effects of accounting diversity, and the major challenges facing accounting globally.
- *Chapter 2* is about the global harmonization and convergence of accounting and auditing standards. It looks at various aspects of harmonization including the reasons for and against harmonization, the measures of harmonization, the organizations engaged in harmonization, and the various harmonization models and scenarios.
- *Chapter 3* deals with accounting for currency exchange rate changes. It looks at the various alternative accounting methods for currency translation and their impact on management decision.
- *Chapter 4* delves into selected financial reporting and disclosure issues in the global context including accounting for changing prices, accounting for goodwill and intangible assets, geographic segment reporting, and the significant attention to environmental and social reporting in recent years. Updates in this chapter include a discussion of the state of Corporate Responsibility Reporting globally as well as the role and impact of the Global Reporting Initiative (GRI).
- *Chapter 5* covers various topics related to using corporate financial reports across borders. It examines corporate responses to foreign users of financial statements, and how preparers and users cope with transnational financial reporting. It also covers a number of issues related to international financial statement analysis. This chapter contains several new exhibits as well as revisions in the discussion of cross-country analysis.
- *Chapter 6* looks at financial reporting in emerging capital markets. The coverage includes the role of financial reporting in emerging capital markets, and the characteristics and policy issues related to financial reporting in developing countries. This chapter contains updated sections on accounting in China and Mexico and several new exhibits.

- *Chapter 7* deals with a number of managerial issues in international accounting. These include budgeting and performance evaluation, global risk management, transfer pricing, information technology, and ethics and culture.

End of Chapter Materials

Each chapter ends with a summary of the main points contained therein, discussion questions, exercises, test prepper questions, and where appropriate, cases. The discussion questions are relatively straightforward applications of chapter materials. In keeping with the user perspective of the book most of the exercises involve hands-on application of domestic and foreign annual reports.

Instructors' Material

The book is accompanied by instructors' material that includes 1) an outline of each chapter, 2) solutions for selected exercises and cases at the end of the chapter, 3) a test bank consisting of true/false and multiple choice questions, and 4) PowerPoint slides.

Acknowledgments

We thank the many colleagues all over the world who have used the previous editions of this book despite (or because of) its innovative and novel approach. The positive feedback received from many of these colleagues was instrumental in the decision to proceed with this edition. It has been heartening to see that the book has had global appeal and is used at universities in over 20 countries on four continents.

We thank the students in our MBA, Master of Accounting and undergraduate classes for their valuable feedback on previous editions of the book. We also appreciate the input of participants in Dr. Saudagaran's executive education courses taught in a number of countries over the years.

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Murphy Smith

ABOUT THE AUTHORS

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Shahrokh Saudagaran, PhD, served as the Gary E. and James A. Milgard Endowed Dean at the University of Washington Tacoma's Milgard School of Business from 2004 to 2015. He currently serves as Professor of Accounting and Director of the Milgard School's Center for Leadership and Social Responsibility. His previous academic positions were the Arthur Andersen Professor and Head of the School of Accounting at Oklahoma State University and Director of the International Business Studies Institute and McCullough Professor of Accounting at Santa Clara University. He is Secretary General of the Asian Academic Accounting Association and Past-President of the American Accounting Association's International Accounting Section. In 2002, the Japanese Association of International Accounting Studies awarded him a lifetime honorary membership in recognition of his contributions to international accounting. In 2004, he received the American Accounting Association's Outstanding International Accounting Educator Award. His research on the impact of international accounting diversity on global listing decisions and on financial reporting in emerging capital markets, particularly those in the Asia-Pacific region, has been published in the top accounting, finance and international business journals. He has presented his research at conferences and university colloquia in over 30 countries. Saudagaran has consulted and taught executive seminars in international accounting and finance for corporations in Asia, Europe, and the United States.

Saudagaran has also published *The Asian Accounting Handbook: A User's Guide to the Accounting Environment in 16 Countries*. He has served on the editorial boards of several journals including the *Accounting Review*, *Accounting Horizons*, and *Issues in Accounting Education* and international accounting journals worldwide.

Saudagaran obtained his PhD from the University of Washington, his MBA from the Iran Center for Management Studies, and his Bachelor of Commerce from the University of Bombay. He was also licensed as a CPA in Washington State. He is

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His major areas of research include: international accounting ethics, financial reporting, and information technology. Among the journals in which he has published are the following: *Journal of Business Research*; *Advances in Accounting*; *Contemporary Accounting Research*; *Accounting Horizons*; *Journal of Information Systems*; *Journal of Business Ethics*; *Research on Professional Responsibility and Ethics in Accounting*; *Critical Perspectives on Accounting*; *International Journal of Economics and Accounting*; *Internal Auditing*; and *Journal of Accountancy*. His work has been cited in various news media, including National Public Radio, Fortune, USA Today, and The Wall Street Journal.

Among his recognitions for teaching and research are the following: Outstanding Researcher Award from the American Accounting Association Strategic and Emerging Technologies Section, Outstanding Educator Award from the Texas Society of CPAs, KPMG Outstanding Published Manuscript Award from the American Accounting Association Gender Issues and Work-Life Balance Section, Outstanding Paper in JATA Award from the American Taxation Association, and the Authors Award from the Association of Government Accountants.