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Introduction

This teachers’ manual is designed to be used for courses for which Comparative International Accounting (eleventh edition, 2010) is a text.

Part I contains some suggestions for outline answers to the end-of-chapter questions that are not answered in the text. Fuller answers would contain more details and references to books and articles. The questions and outline answers relating to a chapter are not provided by the authors of the chapters but by the editors, assisted by Lisa Evans of the University of Stirling.

Part II provides some extra questions that require access to annual reports, available on the internet. Part III provides some outline answers to these questions.

Parts IV and V contain some suggestions for multiple-choice questions (and answers to them) on various aspects of the material covered in the text. Again, Lisa Evans has contributed some of these. Teachers with large classes may find these questions a helpful supplement to the essay and numerical questions. Teachers are asked to take the normal precaution of collecting the multiple-choice question sheets after use by students so that questions do not gain wide currency.

Tables from the text are also available in the form of PowerPoint slides on the website.

Christopher Nobes

Robert Parker
PART I

OUTLINE ANSWERS TO THE END-OF-CHAPTER QUESTIONS IN THE TEXT
CHAPTER 1

Introduction

Outline Answers to Questions

1.1 What effects have the major political events in the world since the end of the Second World War had on accounting and financial reporting?

[See Appendix in textbook.]

1.2 Why have the major accounting firms become ‘international’? From what countries have they mainly originated? Why?

[See Appendix in textbook.]

1.3 What major contributions have been made historically to accounting and its terminology by the following countries: Italy, the United Kingdom, the United States and Japan?

Italy’s main contribution has been double-entry bookkeeping. Practised in Italy from the thirteenth century onwards, it spread to other countries of Western Europe from the fifteenth century onwards and later to the rest of the world (e.g. to Japan in the late nineteenth century). English and other languages have borrowed Italian bookkeeping and commercial terms. The examples given in the text are bank, capital, cash, debit, credit, folio, imprest and journal.

The United Kingdom’s main contribution has been professional accountancy, which first developed in its modern form in Scotland, and in England and Wales in the nineteenth century. The supremacy of the British Empire and the export activities of British capital during this period ensured that English became the business language of the world, a position confirmed and consolidated by the later growth of US influence.

The United States’s main contributions have been made since the First World War. Consolidated accounting and standard costing, for example, are US ‘inventions’.

Professional accountancy worldwide has become dominated by firms that are mainly American even when they have UK or other European origins. Many accounting terms in other languages have been borrowed or adapted from English usage, for example, ‘audit’ and ‘cash flow’ in French and ‘accountant’ in Dutch. The terms ‘chartered accountant’ (United Kingdom) and ‘certified public accountant’ (United States) have been adopted by other English-speaking countries.

Japan’s contribution is much more recent and results from the copying of its management (including management accounting) practices. Accounting terms borrowed and translated from Japanese into English (and other languages, sometimes through English) include ‘just-in-time’ and ‘target costing’.
1.4 Which are the top three developed countries in respect of each of:

(a) share of the world’s top 500 companies;
(b) number of qualified accountants;
(c) market capitalization of stock exchange?

Why is the answer not the same for all three questions?

(a) United States, Japan, France
(b) United States, United Kingdom, Brazil
(c) United States, Japan, China

These answers are based on Tables 1.11, 1.12 and 1.15 in the text, the first and last of which can be updated easily from the sources cited. The United States is the only country appearing in all three options. Note the small size of the Japanese accountancy profession and the large number of accountants in Brazil and China (a function of their large populations and their fast-growing economies, but perhaps also of the difficulty of defining a ‘qualified accountant’). The UK is second even after excluding the CIMA, which has nothing to do with audit. On the other hand, many ACCA members work outside of the UK.

1.5 What factors have made possible the ‘internationalization’ of the world’s stock markets?

The main factors that have made possible the ‘internationalization’ of the world’s stock markets are the deregulation of the leading national markets, the speed of financial innovation, advances in communications technology and growing links between domestic and world markets.

1.6 What factors have led to the establishment of multinational enterprises (MNEs)?

Dunning’s ‘eclectic paradigm’ stresses:

(1) possession, or privileged access to, assets that provide a competitive advantage over local firms;

(2) the extent to which it is appropriate, given the relative transaction costs, to internalize the markets for these assets;

(3) the extent to which there are advantages in locating production overseas rather than meeting the demand by exports.

Note that these are economic explanations of a phenomenon that can be looked at more widely.

1.7 Which countries historically have been the home countries of MNEs? Are they the same countries from which international accounting firms have originated?

According to Table 1.9 in the text, the top four home countries were (in order of importance) as follows:

1914 United Kingdom, United States, Germany, France
1938 United Kingdom, United States, Netherlands, France
The United Kingdom has remained an important home country despite dropping behind the United States; Germany has recovered a position lost in two world wars; the Netherlands is an example of a small country whose companies can only grow by expanding overseas; Japanese MNEs emerged strongly, but suffered setbacks in the late 1990s.

These are not exactly the same countries from which international accounting firms have originated. What is also needed is a strong domestic accountancy profession – whose growth may depend on other factors as well, for example, the nature of the corporate financing system. (See, also, the answer to Question 1.2.)

1.8 Why are there more accountants per head of population in New Zealand (NZ) than in France?

Using the figures in the text, NZ has one professional accountant per 133 persons and France has one per 3,157 persons! However, not all accountants are members of a professional body and the tasks carried out by an ‘accountant’ in one country (e.g. NZ) may be carried out in another country (e.g. France) by an ‘engineer’ or a ‘lawyer’.

In general, Anglo-Saxon countries have more ‘accountants’ per head than non-Anglo-Saxon countries, but the influence of international capital markets has increased the number of accountants in France in recent decades.

1.9 Why are some EU companies listed on non-European (especially North American) stock exchanges?

Companies seek listings on stock exchanges in order to raise capital and/or make their shares more widely available. They may also have a policy of being listed in the major countries in which they operate. For all of these reasons, EU companies have increasingly sought to be listed on a US exchange. On the other hand, the Securities and Exchange Commission (SEC) requires the use of, or reconciliation to, US’s generally accepted accounting principles (GAAP). Companies have to weigh up the costs and benefits of a US listing. Until recently, most German companies, for example, believed the former to outweigh the latter.

1.10 Why is English the leading language of international corporate financial reporting?

English is the leading language of corporate financial reporting for two main reasons:

(a) for historical reasons, English has been the world’s dominant language for the last hundred years or so;

(b) corporate financial reporting to shareholders and the terminology of accounting standards that forms a part of it originated in English-speaking countries, especially the United States and the United Kingdom.

Note that US and UK terminology differ in many respects, as illustrated in Chapter 8.

1.11 Access the website of GlaxoSmithKline (www.gsk.com) to explain the differences disclosed in its annual reports between US GAAP and IFRS and UK GAAP from 2004 onwards. Could these differences (summarized in Tables 1.1 and 1.2) have been smaller if the company had made other choices of options available within IFRS and UK GAAP? Is the size of the differences influenced by the fact that GSK is a pharmaceutical company?

Generally a non-US company might be expected to choose IFRS (or national) policies that are as close to US GAAP as possible, in order to reduce reconciliation items. However, there are only a limited number of choices in IFRS that are also not available in US GAAP. Tables in Chapter 8 list the IFRS choices.

The largest difference in Tables 1.1 and 1.2 relates to goodwill, because old UK practices can be carried through into the IFRS statements but must be removed for US GAAP.

One relevant issue for pharmaceutical companies is that there is more capitalization of development costs under IFRS than under US GAAP.
CHAPTER 2

Causes and examples of international differences

Outline Answers to Questions

2.1 ‘The basic cause of international differences in financial reporting practices is the different degree of interference by governments in accounting.’ Discuss.

[See Appendix in textbook.]

2.2 Assess the view that accidents of history are primarily responsible for international differences in corporate financial reporting.

[See Appendix in textbook.]

2.3 If you were trying to predict which financial reporting regulations and practices would be found in various African countries, which non-accounting variables would you measure?

Most African countries were under the control of colonial powers for much of the twentieth century. Therefore, it is likely that the best predictor of accounting regulations or practices is that such countries will have an old version of those of the colonial power. Furthermore, the African country is likely to have inherited its style of legal system and accounting profession, which will reinforce the style of accounting.

For example, one would expect a French influence on an African country to extend to the use of an accounting plan, whereas British influence would lead to the use of ‘standards’, perhaps based on British or IASB rules.

The size of equity market might not be a good predictor for these countries. Some former British colonies may have had no substantial equity market but might have accounting rules suited to one.

2.4 Explain how international differences in the ownership and financing of companies could lead to differences in financial reporting.

The basic thesis is as follows:

1. In all countries, the government will be interested in the calculation of profit in order to calculate taxable income and prudently distributable profit.

2. Financial reporting rules in a country tend to be driven by large companies because they exercise the greatest influence over the rule makers.

3. In countries with large numbers of listed companies that have large numbers of non-director shareholders, there will be a demand for large quantities of published, audited financial information used for making financial decisions.

4. In these countries, the government’s accounting/tax rules will be unsuitable for financial reporting, so accounting calculations will have to be done twice.