# Four internaional accounting questions

International Accounting Questions 1a. Most developed and developing countries have diverse capital markets consisting of equities (basically stocks) and debentures (bonds). The country can determine if it is a creditor nation (they invest more in foreign countries than foreign countries invest in their country) or a debtor country where the opposite is true. 1b. Whether the country is a creditor or debtor nation, it is important that financial data are consistent irrespective of the balance of trade. As companies become more global, it is important that accounting standards be applied. From a debtor’s perspective, it is important that investors are confident that the financial condition of a company or a national bond is expressed accurately. From a creditor’s perspective, they want to be confident that the companies or debt securities their citizens (or the countries themselves) purchase are accurately represented by the published financial statements. 2a. Ever since the onset of modern business and the taxation of corporations, accounting in the US has been rules based. Any major change in the philosophy of accounting will be a challenge. The rules based accounting system dictates exactly how certain transactions should be recorded. The principle based accounting system has few rules. Instead general principles are published and companies are required to ensure their financial statements fairly and accurately represent these principles. I see the main challenge in converting from rules to principles based system will be in the consistency of financial statements. Another challenge will be in educating the investor. Under the principles based system the accountants have much more latitude in the recording of transactions. For example, depreciation of assets will vary depending on the accountant’s view of useful life. 2b. In a speech given by Janes L. Kroeker Deputy Chief Accountant SEC on April 4, 2007 he states that the SEC will issue guidelines if it is determined that the US will convert to an objective (principle) based accounting system. The SEC will assist in educating the investor of how such a change will affect a company's financial statements. 3a. " Translation exposure is the risk that a company's equities, assets, liabilities or income will change in value as a result of exchange rate changes. Transaction exposure is the risk that if companies are engaged in international trade, that currency exchange rates will change after the companies have already entered into financial obligations. Economic exposure is exposure to fluctuating exchange rates, which affects a company's earnings, cash flow and foreign investments." (Investopedia. com) Under the current rules based accounting system, all three exposures are disclosed in the financial statements in the notes to the statements. The notes generally describe the current value of the transactions and what affect it would have on the specific financial statement. In extreme cases an accounting entry will be made to reflect current values. This is especially true in transaction exposure. For example a company may contract to import 1, 000, 000 units at 1 Euro per unit. The projected cost is about $702, 000. If the rate changes before payment are due the cost can change significantly. Under the principle based system, accountants or auditors have the flexibility to revalue assets, liabilities and equities as they see fit. 3b. Of the 3 exposures, I rate the translation exposure to be of the highest concern. My decision is based on the fact that most large corporations have foreign branches and subsidiaries. Changes in foreign exchange rates affect the actual value of virtually all balance sheet and income statement accounts. 4a. Management of multinational companies often use transfer pricing to maximize income in lower taxing countries and minimizing income in higher tax rate countries. Hence countries with lower tax rates have a built in advantage. 4b. the best way to prevent abusive transfer pricing is via international country by country reporting standard which is slowly gaining strength around the world. In addition, more audits by national taxing authorities are another tool that will curtail abusive transfer pricing tactics.

Sources Cited Saudagaran, Shahrokh M. International Accounting Kroeker, James L. “ SEC Speech: Remarks before the 2007 Conference on Principals-Based Accounting and Challenges of Implementation”. 4 April 2007. Web. 11 May 2011. Investopedia. n. d. “ Translation Exposure”. Web. 11 May 2011. Investopedia. n. d. “ Transaction Exposure”. Web. 11 May 2011. Investopedia. n. d. “ Economic Exposure”. Web. 11 May 2011. Financial Integrity & Economic Development. n. d. “ Focus on Abusive Transfer Pricing Moves US in the Right Direction”. Web. 11 May 2011