

International accounting

Business



International accounting is that process in accounting involving financial analyzing recording and reporting that involves two or more nations. It involves international comparative analysis, accounting needs for international financial markets and the harmonizing of the world wide accounting and financial reporting through political, organizational, professional and thought setting standards.

With the growth of globalization acquisitions of firms in different countries has increased in the last few years. The reporting in accounting will therefore vary from one country to another. It becomes necessary to merge this accounting figures so as they can reflect the correct financial position by harmonizing the reports. In order to make fair comparisons and for investors to make fair decisions, the risks and returns of a multinational company that is diversified will need to be assessed by analyzing individual risks and rewards in the different geographical areas (Auchan website, 2008). The issues that are addressed in international accounting include the differences in translating from one language to another, the rules in consolidation, segment reporting, the effect of inflation in accounting, different disclosure requirements, different auditing requirements, and the effect of taxation and finally comparative accounting.

This paper will address the issue of International accounting, with Tesco Plc as the case study as comparisons are made with the company's major competitors, namely Wal-Mart, Auchan, Aldi and Spar International, using the 2008 annual financial reports. The paper will also analyze the problems that may arise when collecting and interpreting relevant data from the Consolidated Financial Statements of Foreign Multinational competitors

(Walton Et al 2003). Issues That May Raise An Issue In The Comparisons And Problems Different countries adopt different accounting practices. The acceptance of different practices may be caused by different circumstances, which include the environment which may lead to a country applying one practice as relevant in that particular country while it may be irrelevant in another country. An example is in merging of accounts which may not be of much importance in the developing world where most companies are locally owned as compared to developed countries where there are quite a number of multinationals. Culture and the economic environments may differ leading to different borrowing rates, which maybe long term or short term, thus affecting the comparison and calculation of the ratios.

These sources of financing will affect the debt ratios The reporting may be in a different language which will need an interpreter to get the results.

Regarding the same use of languages there maybe the issue of is the use of terminology an example being Turnover is applied in UK but in the USA they refer to sales. Different formats maybe used in different countries with some countries provide the cost of goods sold while others do not. Some European countries do not differentiate current and non-current liabilities. This makes it difficult to calculate a comparison between the current ratios.

In China the financial reporting does not require the separation of sales as an individual item. It is therefore difficult to analyze the sales growth rate.

Disclosure requirements are different. In US full disclosure is required. The problem arises in comparing because it's the disclosures that the investors use to make their investment decisions. This hinders a fair ground for comparison of investments.

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The most crucial disclosure for comparison purposes will include the segments, asset valuation foreign operation. Different countries have different accounting principles which sometimes may affect the valuation of assets and liabilities. The most affected of this is the valuation of non-current assets, the depreciation rates and methods, and the calculation of goodwill. There is no standard for the setting of depreciation rates. One company can use 25 percent on its cars while a different company may charge 20 percent on the same and yet they are in the same industry. The difference in calculation of depreciation will affect the calculation of non-current assets (Calzolari, 2004).

Which in turn will affect the value of the company. There are factors that may contribute to a company having different results. Among these are taxation and the effects it has on the financial reports. Taxation may contribute in the difference in two ways. One the corporate tax rate may be different in one country from the other. There is no standardized rate that is recognized in the world and each country has a different rate.

Secondly there tax allowable expenses may differ from one country to the other. This affects the recognition and of profit and in the valuation of assets. in different countriesThe foreign exchange rate is another issue that arises in comparing and consolidating accounts from different countries. There therefore arises a need to convert. The rate of conversion varies since this rate can change daily especially if there is an external act that may lead to a high rate increase in one day. Such an external trigger can be from a political action in one of the countries.

Different countries have different inflationary rates that are determined by various factors. These factors may include the political climate, the economical situation in the country, and other environmental factors. This rate of inflation will affect the financial reports in the country (Economywatch, 2008). The inflation rate has an effect on the interest rates which will in turn affect the lending rates in that country. This is more so in countries that highly depend on banking as the sources of finance, as compared to those countries where the source of finance comes from investors in form of shareholders. The harmonization of the finance reports will address the foreign currency management and specifically the exchange rate, foreign currency transactions and translations, future contracts, transaction exposure and accounting for inflation, and international taxation.

The most accepted way to harmonize the accounts is through the application of the International Accounting Standards. The International Accounting Standards Board (IASB) has played a big role in trying to harmonize the reporting across the borders. The IASB has members from various countries which are regarded as the standard-setters in accounting. The countries are Canada, USA, Australia and New Zealand, France, Germany Japan and UK. Most companies will apply the IASB rules and procedures in consolidating their financial accounts (Lawrence, 1996). The standards are used as the benchmark while comparing their financial results with other companies.

The IASB has the responsibility to set the standards in accounting which they discuss and review the applications of the International Accounting Standards (IAS) through the International Financial Reporting Interpretations Committee (IFRC). The IFRC is a committee under the IASB which consists of <https://assignbuster.com/international-accounting/>

professionals from different countries. There are several IAS's that are mainly applied in comparing the financial reports from different countries. The most commonly used is the IAS that is applied by most companies in applying comparisons and in consolidation of the reports is the IAS 27, consolidated and separate financial statements. The IAS 27 works together with International Financial Reporting Standards (IFRS) 3, Business Combinations.

Another IAS which is applied is the IAS 21, The Effects of Changes in Foreign Exchange rates and IAS 14 Segment Reporting. In applying IAS 27 the rule is to prepare the reports according to the laws and regulations of the country where the company is located and readjust the figures to the regulations of the parent company. The other option that multinational companies have while preparing reports for their subsidiaries is prepare the reports according to the regulations of the parent company concurrently with the reports as per the specific country's requirements (Tesco corp. com, 2010). This becomes easier for consolidation.

While trying to harmonize the reports companies have options and especially in trying to reduce the impact on the changes in inflation rates, the interest rates and the foreign exchange rates. This can be done through the interest swaps or interest rates hedging where the risk of loss is transferred to someone else. The same is also applied in the foreign exchange hedging where the risk is the changing exchange rates is transferred to someone else. This way the company reduces the risk and the impact on the reports.

Comparison Of Tesco With Walmart And Auchan The financial reporting of these companies was in different currencies from the UK pound.

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The first step was to harmonize these reports by converting the same to the UK pound using the current rate prevailing. Tesco has its base in UK and is a publicly owned company, Wal-Mart is based in the USA and is also a publicly owned company, Auchan is based in France and is family owned Tesco PLC is a public limited company based in UK. The company deals with retail goods and services, with its core business based in UK but with retail shops in other parts of the world. The UK core business contributes 70 percent of the group sales. The products that are mainly offered are food products but it offers non-food products including clothing, electricals, healthy and beauty products, opticians and pharmacies located at some of their stores. The company has a Personal Finance Services under Tesco Personal Finance and telecom services under Tesco Telecoms and an online shop under Tesc. com.

Competitors Wal-Mart is a US based supermarket chain which offers competition to Tesco both locally, in UK and internationally. Asda is a company owned by Wal-Mart and in UK it is the major competitor to Tesco. Internationally Wal-Mart offers stiff competition to Tesco. Walmart owns several large discount departmental stores in the USA and all over the world, including Mexico, UK Japan and other countries.

Wal-Mart is a public limited company that is listed in the New York Stock Exchange. Auchan is an international retail group that is based in France but with branches in several other European countries, in Morocco, China and Taiwan among others. It is the largest retail business in France. It is a privately owned company which is controlled by a wealthy family in France, the Mulliz family. The business is separated and run is divided into

supermarkets, hypermarkets and small shops mostly in the developing countries.

Spar International Spar International is one of the largest food retailers in the world with its base in Netherlands but with operations distributed all over the world precisely in approximately 32 countries. It has operations running in UK, France, Germany, China, South Africa, among other countries. The annual reports for the year 2008 for Tesco and competitors. The exchange rate used is the estimated average exchange rate between the Euros against the Dollar by December 2008 as found at economywatch. com. The rate is \$1.

60/ Euro. EBITDA Earnings before Interest tax dividends and amortization
The tax rate of 31. 6 % down from 32. 7 % in 2007 Had a foreign exchange translation adjustment of ^159 million and the company uses Foreign exchange derivatives to limit the impact on the value of the company. Tax rate of 34.

2% Tax rate of 30% Revenue growth: The growth rate in revenues for Tesco was the highest among its competitors, which is 18% as compared to Wal-Mart which was 8. 6% and Auchan which was 7. 5%. This shows that as compared to its competitors Tesco is growing in revenues at a faster rate than its competitors. Net profit ratio: This is the ratio of the net profit after tax as compared to the revenue; Tesco had a net profit rate of 15. 5% as compared to Wal-Mart with 3.

3% and Auchan with 23. 3%. The ratio indicate