

CHAPTER ONE

INTERNATIONAL ACCOUNTING AND INTERNATIONAL BUSINESS

CHAPTER OUTLINE

1. Introduction
2. The International Development of the Accounting Discipline
 1. Early Italian Influence
 2. Luca Pacioli
 3. Subsequent Developments
3. National Differences in Accounting Systems
4. The Evolution and Significance of International Business
 1. The Pre-Industrial Period
 2. The Industrialization Period
 3. The Post-World War II Period
 4. The Multinational Era
 1. Reasons for International Involvement
 2. Forms of International Involvement
 3. Global Enterprises
 4. Large MNEs
 5. The Decision to Become Global
 1. Environmental Constraints
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5. Environmental Influences on Accounting
6. Major Developmental Factors
 1. Corporations as Legal Entities
 2. Professional Management
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7. Accountability and Multinational Enterprises
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CHAPTER OVERVIEW AND TEACHING SUGGESTIONS

Chapter 1 provides a historical background for international accounting and MNEs. This chapter identifies the rationale for an international accounting course. Instructors may want to review articles (referenced in the notes at the end of the chapter) written about the rationale for and content of an international accounting course. For a more detailed discussion of international accounting issues and how they might be discussed in the curriculum, see Lee H. Radebaugh, "Internationalization of the Accounting Curriculum," in Internationalizing Management Education by Alan M. Rugman and W.T. Stanbury, Editors (Vancouver, B.C.: Centre for International Business Studies, University of British Columbia, 1992).

LECTURE NOTES

- I. Introduction
- II. The International Development of the Accounting Discipline
 - A. Early Italian Influence
 - 1. Record keeping can be traced to 3600BC
 - 2. Italy became the center of trade routes
 - 3. Genoa in 1340AD -- double entry, business entity, money
 - 4. Florentine -- development of large corporations and *compagnie* (partnerships)
 - 5. Venice -- responsible for the spread of double entry accounting
 - B. Luca Pacioli
 - 1. Franciscan monk educated in mathematics
 - 2. Taught at several universities, tutored three sons of a Venetian merchant
 - 3. In 1494, published *Summa de arithmetica geometria proportioni et proportionalita*
 - 4. Introduced three books of record -- the memorandum book, the journal and the ledger -- that required a debit and credit for the transaction to remain in equilibrium
 - C. Subsequent Developments
 - 1. Decline of Italy as a commercial power, shifting influence to Atlantic
 - 2. Rise of the nation-state in the 1500s -- public finance
 - 3. French revolution in late 1700s brought Italy under the influence of the French and Austrians, resulting in some changes in accounting
 - 4. Scale of enterprises increased, followed by rapid industrialization, and finally multinationalization
- III. National Differences in Accounting Systems
 - A. Accounting systems evolve from and reflect the environments they serve
 - B. Legal, political, economic, cultural, educational environments create differences
- IV. The Evolution and Significance of International Business
 - A. The Pre-Industrial Period
 - B. The Industrialization Period
 - C. The Post-World War II Period

- D. The Multinational Era
 - 1. Reasons for International Involvement
 - 2. Forms of International Involvement
 - 3. Multinational Enterprises
 - 4. Large MNEs
 - 5. The Decision to Become Global
 - i. Factors include environment constraints Fig. 1.1 and firm-specific advantages
- V. Environmental Influences on Accounting
 - A. Environmental model -- see Figure 1.2
 - 1. A variety of forces influence accounting standards and practices
 - 2. Culture is a key source of influence
 - 3. The influence of factors varies both between and among countries over time
 - 4. Similarities as well as differences; hard to classify countries -- Anglo-Saxon and French Continental European models
 - 5. New patterns of accounting are being influenced by international organizations and the changing nature of business
- VI. Major Developmental Factors
 - A. Recognition of corporations as legal entities with public ownership of shares and the legal right of limited liability
 - 1. Transparency -- information disclosure is a way to help protect creditors in an environment of limited liability
 - 2. Disclosure needed to help investors attracted by limited liability but who need information to assess value of investment decision
 - B. Growth of professional management -- need information to ensure owners that professional managers are good agents
 - 1. The emergence of securities markets -- see Exhibit 1.1
 - a. Provide the exchangeability of shares and a source of new equity capital
 - b. Facilitate developing countries to transition to a market economy
 - c. Makes possible the privatization of state-owned companies
 - d. Provide information to financial analysts for potential investors
 - e. Tends to deepen and broaden disclosure
 - f. Gives a strong correlation between well-developed capital markets and the extent of financial disclosure in corporate reports
 - 2. Shareholders as outsiders
 - a. Have less information and less control than some other groups, such as bankers and the government
 - b. Find differences among countries such as the U.S. and U.K., versus Germany, Japan, and France
 - 3. Share prices exert some influence on disclosure, but only in countries where shareholders are an important source of capital
 - 4. Governments have been influential in the development of accounting standards

in many countries due to government involvement in the economy

C. Trends in Securities Markets

1. The exchanges have tried to get firms to list because of cost-volume advantages
2. Exchanges in Europe have been consolidating for competitive reasons
3. Markets in emerging countries are growing consistent with globalization and capital access improvements

D. A Wider Audience

1. Employees, trade unions, consumers, government agencies, the general public demand information reflective of accountability and externalities issues
2. Companies hesitate supplying much unique information for stakeholders of 1) since they might wish to pursue nontraditional goals
3. Supply of information could influence corporate behavior and provide criticism of corporate performance
4. Demands of wider audience may not be defined or may be difficult to measure
5. Demand depends on needs of the wider audience and their relative power -- like in codetermination
6. The right of access to information implies the political values of a liberal democracy
7. The supply/demand of information is an evolutionary process reflective of economic and social imperatives

E. An Evolutionary Process

1. While corporate disclosure has its roots in the demands of financial providers, the growth in the securities markets themselves is a major driver of reporting

VII. Accountability and Multinational Enterprises

A. Information disclosure strengthens the bargaining power of developing countries for FDI vis-a-vis MNEs.

B. MNEs operating in different countries have the opportunity to take advantage of different tax laws, currency differences, etc. With size and business complexity, they can coordinate pricing, sourcing, and location decisions to increase the net return to the corporation as a whole

C. The special impact of MNE behavior has given rise to pressure for more accountability and information disclosure

VIII. Accounting Aspects of International Business

A. Establishing an internal international accounting capability

1. Different ways of operating abroad correspond to accounting problems

IX. The Field of International Accounting

A. Two major areas: Descriptive/comparative; accounting dimensions of international transactions/MNEs

X. Overview of the Text

A. Topical Organization

1. Introduction (Chapter 1)
2. Comparative Accounting and International Harmonization (Chapters

2,3,5,6&7)

3. International Financial Reporting Issues (Chapters 8,9,10&11)
4. International Management Accounting and Control (Chapter 12)
5. Foreign Exchange Risk Management(Chapter 13)
6. External Auditing Issues (Chapter 15)
7. Taxation (Chapter16)