

Instructor's Manual

Comparative International Accounting

Thirteenth edition

Christopher Nobes
Robert Parker

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Edinburgh Gate
Harlow CM20 2JE
United Kingdom
Tel: +44 (0)1279 623623
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Introduction to the Manual

This instructor's manual is designed to be used for courses for which *Comparative International Accounting* (thirteenth edition, 2016) is a text.

Section 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.

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

Sections 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

SECTION I

Outline answers to the end-of-chapter questions in the text

PART I

Setting the scene

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 to accounting and its terminology have been made historically 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, double entry spread to other countries of Western Europe from the fifteenth century 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 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’ 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 in which the largest offices are 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’ (the United Kingdom) and ‘certified public accountant’ (the United States) have been adopted by other English-speaking countries.

Japan’s contribution is much more recent and results from the export 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 countries in respect of each of:

- (a) share of the world's top 100 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, United Kingdom, Germany
- (b) United States, United Kingdom, Brazil
- (c) United States, China, Japan

These answers are based on Tables 1.5, 1.10 and 1.11 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 United Kingdom 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 United Kingdom.

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?

In addition to the sort of information in Table 1.10, one could use data on the countries of origin of foreign investment. On that basis, according to Table 1.8 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

1980 United States, United Kingdom, Germany, Netherlands

1990 United States, United Kingdom, Japan, Germany

2000 United States, United Kingdom, Germany, France

2009 United States, United Kingdom, France, Germany

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 than in France?

Using the figures in the text (page 19), New Zealand had one professional accountant per 125 persons and France had one per 3,158 persons! However, not all accountants are members of a professional body and the tasks carried out by an ‘accountant’ in one country (e.g. New Zealand) 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 other 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 sought to be listed on a US exchange. Partly because of the cost of complying with US regulations (notably the Sarbanes Oxley Act), US listing has become less popular on the New York Stock Exchange. Companies have to weigh up the costs and benefits of a US listing. De-listings exceeded new listings for much of the first decade of the new millennium.

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 and
- (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.

Continental European and Japanese financial statements are usually translated into US English rather than UK English. International accounting standards use a mixture of US and UK English.