

THE UNIVERSITY OF NEW SOUTH WALES



Faculty of
Commerce and Economics

School of Accounting

ACCT3601
GLOBAL FINANCIAL REPORTING
AND ANALYSIS

Session 2, 2003

OBJECTIVES

This course aims to provide an understanding of the international dimensions of external financial reporting and financial statement analysis for effective operation in the global business environment. The internationalisation of business and the world's capital markets has created accounting challenges for the multinational enterprise and the parties interested in the preparation or use of its financial reports including finance directors, accounting executives, investment analysts, auditors, accounting standard setters, regulators and the multinational's competitors.

Major environmental influences on accounting internationally are assessed and international patterns identified. A comparative analysis of accounting regulation and reporting in selected countries is undertaken in the context of each country's cultural, political, legal and business environment. A review is made of the attempts at the convergence or harmonisation of accounting rules and underlying concepts across national jurisdictions by major international alliances including the International Accounting Standards Board (IASB) and the European Union (EU).

The challenges in analysing foreign financial reports are reviewed along with the effects of different sets of national GAAP (Generally Accepted Accounting Principles) on reported profits and shareholders' equity. A variety of important financial reporting issues are analysed including the treatment of foreign currency transactions and the hedging of exposure risk as well as multinational consolidations requiring the translation of foreign currency financial statements. The credibility added by the auditing standards and practices in different countries is examined together with the trend towards the internationalisation of auditing.

At the end of this subject you should understand:

- (a) the challenges faced by a multinational enterprise in reporting to external parties,
- (b) how financial reporting differs from country to country,
- (c) the reasons for the differences and the degree of progress in reducing the diversity,
- (d) the usefulness and limitations of the disclosures in particular countries, and
- (e) the implications for and impact on global financial analysis.

The dimensions of international accounting concerned with reporting to management on multinational operations are covered in ACCT4820 Management Accounting Issues & International Best Practice.

TEXTS

Choi, F.D.S., C.A. Frost, and G.K. Meek, **International Accounting**, 4th edition, Prentice Hall, 2002. (Abbreviated "Choi")

Iqbal, M.Z., **International Accounting: A Global Perspective**, 2nd edition, South-Western, 2002. (Abbreviated "Iqbal")

You will need both these texts. Bring your texts to each scheduled period as there will be reference to various figures, questions, exercises and cases from the texts during class. You will be supplied with the prescribed reading that is not from the texts.

Summary of Weekly Sessions and Topics

Date	Session	Topic
30 July	1	Introduction
6 Aug	2A	Context of international accounting (including the trend for business enterprise and financial markets to become more global)
	2B	Types of differences in national GAAP (Generally Accepted Accounting Principles)
13 Aug	3A	Development and classification of national accounting systems
	3B	International variations in accounting for business combinations, consolidations and intangible assets
20 Aug	4	Financial reporting in six economically developed countries: France, Germany, Japan, the Netherlands, UK and USA
27 Aug	5A	Accounting for inflation and changing prices internationally
	5B	A closer look at the reasons for international financial reporting differences including an evaluation of the Nobes (1998) Model
3 Sept	6	Harmonisation and convergence to reduce the diversity
10 Sept	7	International financial statement analysis
17 Sept	8A	Global transparency and disclosure trends
	8B	Review of Sessions 1 to 6
24 Sept	9	Mid-session examination (on Sessions 1 to 6)
Mid-session recess (27 September to 6 October)		
8 Oct	10A	Foreign currency – Part 1
	10B	Auditing issues for global operations
15 Oct.	11A	Foreign currency – Part 2
	11B	Australia's rush to converge
22 Oct	12	Accounting in emerging economies including developing countries and the Eastern European countries in transition from planned to market-oriented economies
29 Oct	13A	A closer look at China
	13B	Student choice of topic
(The international financial analysis project must be submitted no later than Wednesday, 29 October, if you wish to have it graded and counted in your final composite mark.)		
5 Nov	14	Review of main themes and topics
Final Examination (During the official UNSW examinations period from 14 November to 2 December 2003)		

USEFUL INTERNET WEB SITES

1. www.AccountingEducation.com (register your name and email address via the Register option to receive a weekly update on accounting developments around the world)
2. www.iasb.org.uk (International Accounting Standards Board)
3. www.iasplus.com (IAS Plus is a site providing news and commentary on international accounting standards – service of Deloitte Touche Tohmatsu)
4. www.aasb.com.au (Australian Accounting Standards Board)
5. www.icaa.org.au (Institute of Chartered Accountants in Australia). You can email techsec@icaa.org.au to be put on the distribution list for a weekly email of ANT (Accounting & Auditing News Today).
6. www.fasb.org (Financial Accounting Standards Board –US)
7. www.sec.gov (Securities and Exchange Commission – US)
8. www.iosco.org (International Organisation of Securities Commissions)
9. www.asx.com.au (Australian Stock Exchange)
10. www.fortune.com/fortune/global500/ (Fortune Global 500)
11. www.DaimlerChrysler.com
12. www.nestle.com
13. www.hoechst.com
14. www.gsk.com (GlaxoSmithKline)
15. www.electrolux.com
16. www.philips.com
17. www.nokia.com
18. www.bhpbilliton.com/bb/aboutUs/annualReport.jsp (BHP Billiton)
19. www.microsoft.com/msft/tools.htm#alternate (Microsoft annual financial statements in a number of national GAAPs)
20. www.deloitte.com.au
21. www.ey.com/au
22. www.kpmg.com.au
23. www.pwcglobal.com/au

REFERENCE BOOKS

- Alexander, D., A. Britton, and A. Jorissen, **International Financial Reporting and Analysis**, Thomson Learning, 2003.
- Baydoun, N., A. Nishimura, and R. Willet, **Accounting in the Asia-Pacific Region**, Wiley, 1997.
- Belkaoui, A.R., **The Cultural Shaping of Accounting**, Quorum Books, 1995.
- Blake, J., and M. Hossain, eds., **Readings in International Accounting**, International Thomson Business Press, 1996.
- Choi, F.D.S., ed., **International Accounting and Finance Handbook**, 3rd edition, Wiley, 2003.
- Cooke, T.E., and R.H. Parker, eds., **Financial Reporting in the West Pacific Rim**, Routledge, 1994.
- Coopers & Lybrand, **International Accounting Summaries: A Guide for Interpretation and Comparison**, 2nd edition, Wiley, 1993.
- Ferris, K.R., **International Financial Reporting and Analysis: A Casebook**, Irwin McGraw-Hill, 1998.
- Flower, J., and G. Ebbers, **Global Financial Reporting**, Palgrave, 2002.
- Gernon, H., and G.K. Meek, **Accounting: An International Perspective**, 5th edition, Irwin/McGraw-Hill, 2001.
- Gray, S.J., S.B. Salter, and L.H. Radebaugh, **Global Accounting and Control: A Managerial Emphasis**, Wiley, 2001.
- Haskins, M.E., K.R. Ferris, and T.I. Selling, **International Financial Reporting and Analysis: A Contextual Emphasis**, 2nd edition, Irwin McGraw-Hill, 2000.
- International Accounting Standards 2003**, International Accounting Standards Committee, 2003.
- Lawrence, S., **International Accounting**, International Thomson Business Press, 1996.
- Ma, R., ed., **Financial Reporting in the Pacific Asia Region**, World Scientific, 1997.
- Nobes, C., and R. Parker, **Comparative International Accounting**, 7th edition, Financial Times Prentice Hall, 2002.
- Ordelheide, D., and KPMG, **TRANSACC: Transnational Accounting**, Macmillan, 2nd edition, 2000, Volumes 1, 2 and 3.
- Radebaugh, L., and S.J. Gray, **International Accounting and Multinational Enterprises**, 5th edition, Wiley, 2002.
- Roberts, C., P. Weetman, and P. Gordon, **International Financial Accounting: A Comparative Approach**, 2nd edition, Financial Times Prentice Hall, 2002.
- Samuels, J.M., R.E. Brayshaw, and J.M. Craner, **Financial Statement Analysis in Europe**, Chapman and Hall, 1995.
- Saudagaran, S., **International Accounting: A User Perspective**, 2nd edition, South-Western, 2003.
- Tang, Y-W., L. Chow, and B.J. Cooper, **Accounting and Finance in China**, 3rd ed., FT Law & Tax Asia Pacific (an imprint of Pearson Professional Asia Pacific), 1996.
- Walton, P., A. Haller, and B. Raffournier, eds., **International Accounting**, 2nd edition, Thomson Learning, 2003.

COURSE ASSESSMENT

	<u>Marks</u>	<u>OR</u>	<u>Marks</u>
Mid-session examination	30.0		25.0
Final examination	45.0		39.0
Team presentation of cases	10.0		8.5
Completion of assignments and participation	15.0		12.5
Optional international financial analysis project (if submitted by Wednesday, 29 October)			15.0
	-----		-----
	100.0		100.0
	====		====

The mid-session examination will be held in class time in Week 9 (Wednesday, 24 September 2003). It will cover the work covered in Sessions 1 to 6. The final examination (which will concentrate on the work covered in Sessions 7, 8A and 10A to 13B) will be held in the official UNSW examinations period from 14 November to 2 December 2003.

TIME: Wednesday, 4:00 to 7:00 p.m.

LOCATION: Room G032, Quadrangle Building.

STAFF:

Associate Professor Malcolm Miller
Room 3082, Third Floor, Quadrangle Building
Telephone: 9385-5820 (Direct)
Email: m.miller@unsw.edu.au
Consultation hours: Tuesday, 4-5pm and Thursday, 2-4pm

Malcolm Miller is an Associate Professor in the School of Accounting and the School's Co-ordinator for the Master of Commerce Programs. He undertakes teaching and research in the area of financial accounting and reporting. In particular, he is interested in issues relating to accounting standards, the regulation of financial reporting and international accounting. He was a Vice-President of the International Association for Accounting Education and Research (IAAER) from March 2000 to November 2002. He was a member of the Consultative Group to the Australian Accounting Standards Board from 1998 to 2003. He was a member of the Australian Accounting Standards Board for four years to 31 March 1995. He was a member of the Public Sector Accounting Standards Board for three years (1987-1989). In 1995 he was a Visiting Scholar at the University of Reading and in 1977-78 and 1983 he was a Visiting Associate Professor at New York University. He held a senior position in the Sydney office of KPMG prior to joining the University in 1971. He has published extensively including research monographs for the Australian Accounting Research Foundation and papers in *The Accounting Review*, *Accounting and Business Research*, *Australian Accounting Review*, *Advances in International Accounting*, *Accounting Forum* and *Charter*. In July 2003 he received the AFAANZ Outstanding Contribution to Practice Award.

INTERNATIONAL FINANCIAL ANALYSIS PROJECT

Students (particularly those who feel they are disadvantaged by closed-book, fixed-time examinations) may submit a project. Also, students who do badly in the mid-session examination can recover some ground with a good project. If attempted and submitted, the project will be marked out of 15. The marks for the other assessment units will be scaled back - so the mark for those units will be out of 85.

The project involves a comparative analysis of two multinational enterprises with headquarters in different countries but operating in the same industry (or two conglomerates). Many annual reports are available on the Internet. It is acceptable to obtain your reports that way.

Using the most recent annual financial reports, attempt the following questions:

- (a) identify the main similarities and differences in accounting principles applied. In particular, comment on the two corporate groups in terms of how they deal with and make disclosures on:
 - (i) business combinations and consolidation of subsidiaries,
 - (ii) intangibles, and
 - (iii) segments.
- (b) identify and evaluate any information provided on the impact of changing prices on each enterprise.
- (c) discuss the impact of foreign exchange on each enterprise. (That would include management's discussion of the changing value of the domestic and foreign currencies on financial results, and a comparison of the translation methodologies of the two enterprises.)
- (d) identify three important disclosure differences between the two annual reports. Do the differences in disclosure appear to be explained by any particular factor (e.g., legal system, financing system, culture)?

Turn in the two annual reports along with your answers.

There is no specific word limit for the project.

The project will not be accepted after Wednesday, 29 October 2003.

Guidelines on the presentation of written assignments (as amended 7/01) for School of Accounting students are on the School's web site (www.accounting.unsw.edu.au) under "Student Information".

SPECIAL CONSIDERATION

It should be noted that special consideration is available only to students confronting *abnormal and significant* difficulties in completing this course. University regulations must be consulted before applying for formal consideration. It should be noted that illness or personal problems do not ensure that supplementary assessment will be granted automatically. In *addition* to the normal University application for consideration, students should lodge a detailed written application with Associate Professor Malcolm Miller or his secretary, Ms Bibi Moore (Goodsell Building, Room 16, Tel. 9385-3719). Details of the consideration will be treated in confidence.

For further information visit: <http://www.student.unsw.edu.au/atoz/atoz-Special.shtml>

ACADEMIC MISCONDUCT

Students are reminded that the University regards academic misconduct as a very serious matter. Students found guilty of academic misconduct are excluded from the University for two years. However, because of the circumstances in individual cases, the period of expulsion can range from one session to permanent expulsion from the University.

The following are some of the actions which have resulted in students being found guilty of academic misconduct in recent years: taking unauthorised materials into an examination; submitting work for assessment knowing it to be the work of another person; improperly obtaining prior knowledge of an examination and using that knowledge in the examination; and failing to acknowledge the source of material in an assignment.

SUPPORT INFRASTRUCTURE

The following services are recommended to students requiring additional and specialised support.

Education Development Unit

Learning and language support, tailored to the needs of FCE students, is available from the Education Development Unit (EDU) in the Faculty. Students may consult the EDU for free advice and assistance with assignment writing, academic reading and note-taking, oral presentation, study skills or other learning needs. The Unit is located in Room 2039, Level 2, Quadrangle Building. (Phone 9385 5584 for an appointment.) Additional information is available from the unit's website (<http://education.fce.unsw.edu.au>).

Learning Centre

In addition to the EDU, the Learning Centre provides academic skills support services for UNSW students. Assistance is provided through workshops, discipline-based courses and individual consultations. The Learning Centre is located at Room 231, Level 2, Library Building. (Phone 9385 3890 for an appointment.)

Counselling Service

Students experiencing disturbing problems of a personal, family or financial nature are encouraged to contact the Counselling Service at UNSW. This service is free and confidential and run by professional counsellors. The Counselling Service is located at Level 2, East Wing, Quadrangle Building. (Phone 9385 5418 for an appointment.)

PREVIEWS, SEMINARS, ASSIGNMENTS AND OTHER ACTIVITIES

Each topic will be previewed a week ahead of its scheduled coverage in a seminar. For instance, Topic 2A and Topic 2B will be outlined in Week 1. This will alert you to the main learning objectives for the topic and what to focus on in your studies for the next week.

You should complete the set reading and assignments before each seminar. During the seminar we will consider the assignments and engage in activities to achieve the desired learning outcomes for the topic. It is anticipated that the typical student will need to allocate 10 to 12 hours a week on average for the course (including reading, completing assignments, attending class, preparing a case for presentation, and drawing together and revising course material).

I will endeavour to review in each seminar all the assignments set for the seminar along with the “other relevant activities”, when the answers are not easily found in your texts or other reading. Please request me at the start of each seminar to cover any aspects that are puzzling you. With a lag of one week, I will provide you with suggested solutions to most of the questions and exercises from the texts.

Document your completion of the assignments by bringing a hard copy of their solutions to class. This will be the hand-in component of the course. Each hand-in is worth 5 marks. I will collect (unannounced) 4 hand-in assignments throughout the session, but only the best 3 will form part of the final assessment. Late assignments will not be accepted. The mark out of 5 will be based on the following criteria:

Attempt Type	Description	Mark
Excellent	A comprehensive attempt to all questions and exercises. Assignment reflects not only correct responses but in addition, a degree of consideration of the issue in question. Assignment is also concise and well written .	5
Good	A comprehensive attempt to all questions and exercises generally done in average depth. Assignment shows that a good effort had been made. Most responses are appropriate but some errors in content and/or written expression.	4
Fair	Reasonable attempt made at all questions and exercises; however, some answers are incorrect and failed to cover the issue in question.	3
Poor	Failure to address several questions in sufficient depth.	2
Very Poor	Assignment submitted but only a superficial attempt had been made to complete the assignment	1
N/A	Late submissions or no assignment submitted	0

Whilst word processing is encouraged, neat and legible handwriting is also acceptable. Copying from the textbooks and reading materials is OK provided you acknowledge direct quotations. In general, you are encouraged to express the answer in your own words as that is likely to help you learn the material.

Plagiarism

Students found to have committed plagiarism in their hand-in assignments will be severely penalised. They will be given a mark of zero out of 15 for the assignment component and they will fail this subject. Further action will be taken in serious cases, which could result in the student being excluded from the University for one or more semesters. See section on "Academic Misconduct" in the course outline or the University webpage on:

(http://www.student.unsw.edu.au/academiclife/assessment/academic_misconduct.shtml).

Section 2.3.1 of the UNSW Student Guide defines plagiarism as "using the work of another person and presenting it as one's own". Before writing your assignments, all students should read the section on academic misconduct and student misconduct.

ACCT3601 Global Financial Reporting and Analysis

Topics, Readings, Cases and Assignments

Week 1 (30 July)

Introduction

Week 2 (6 August)

TOPIC 2A: Context of international accounting (including the trend for business enterprise and financial markets to become more global).

Reading:

1. Iqbal Ch. 1.
2. Choi Ch. 1.
3. Gittins, R., "The Myths of Globalisation," **The Sydney Morning Herald** (19 July 1999), p. 37.
4. Gittins, R., "Black v White in Global Argument," **The Sydney Morning Herald** (10 July 2000), p. 23.
5. Becker, G., "When Globalisation Suffers, the Poor Take the Heat," **Business Week** (April 2003), p. 28.

Assignments for Possible Hand-in:

1. Iqbal Ch. 1 Discussion Questions 4, 19 and 22 (pp. 25-6)
2. Iqbal Ch. 1 Case 3: Is the Glass Half Full or Half Empty - Parts (1), (4), (5) and (6) (pp. 27-9)

Other Relevant Activities:

1. Iqbal Discussion Questions 2, 3, 5, 6, 7, 8, 12, 13, 14, 15, 16, 17, 18, 20, 21 and 23 (pp. 25-6)
2. Choi Ch. 1 Discussion Questions 1 and 4 (pp. 36-7)

TOPIC 2B: Types of differences in national GAAP (Generally Accepted Accounting Principles) including inventories, research and development costs, usage of reserves, and leases.

Reading:

1. Iqbal Ch. 5 pp. 146-52, 171-6. (It is not necessary to remember the practices in all the countries selected for comparison. We will refer to the practices in specific countries in later sessions such as Session 4 on France, Germany, Japan, the Netherlands, UK and USA. Also, you will not be asked to prepare detailed journal entries related to lease accounting but you should understand the financial statement effect of treating a lease as an operating lease as opposed to a finance or capital lease. The reading excludes Iqbal's discussion of the variation in accounting for income taxes. However, interested students may read Iqbal Ch. 10 pp. 399-406 on deferred income taxes.)
2. Goodacre, A., and V. Beattie, "Gearing Up," **Accountancy International** (June 1999), pp. 88-89.

Assignments for Possible Hand-in:

Iqbal Ch. 5 Exercises 5-1, 5-2, 5-3 and 5-4 (pp. 178-9)

Other Relevant Activities:

1. Iqbal Ch. 5 Discussion Questions 10 and 24 (p. 178)
2. Iqbal Ch. 5 Exercises 5-5, 5-6 and 5-7 (pp. 179-80)

Week 3 (13 August)

TOPIC 3A: Development and classification of national accounting systems

Reading:

1. Choi Ch. 2.
2. Iqbal Ch. 4 pp.127-32.

Assignments for Possible Hand-in:

1. Choi Ch. 2 Discussion Questions 1 and 2 (p. 59)
2. Iqbal Ch. 4 Case 3: No Motorcade? Good Heavens! (p. 138)

Other Relevant Activities:

1. Iqbal Ch. 4 Discussion Questions 4, 5, 6, 7 and 8 (pp. 136-7)
2. Choi Ch. 2 Discussion Questions 5, 6, 7 and 10 (p. 59)

Week 3 (13 August) (Cont'd)

TOPIC 3B: International variations in accounting for business combinations, consolidations, and intangibles.

Reading:

1. Iqbal Ch. 5 pp. 164-72.
2. Johnson, L.T., and K. Petrone, "Tale of Two Standards," **Accountancy** (November 2001), pp. 100-1. (Explains "logic" behind US elimination of both pooling and goodwill amortisation.)
3. Kimmitt, A., "Business Combinations: What's in Store?" **Accountancy** (January 2003), pp. 94-5. (A number of countries including Australia and the UK will converge to the IASB standards on this topic.)
4. Vaessen, M., "The Jury Is Still Out," **Accountancy** (February 2003), p. 96.
5. Simmonds, A. and N. Sleigh-Johnson, "Fundamentally Impaired," **Accountancy** (June 2003), pp. 100-1.

Assignments for Possible Hand-in:

1. Iqbal Ch. 5 Discussion Questions 20 and 22 (p. 178)
2. Iqbal Ch. 5 Exercises 5-14 and 5-15 (p. 182)

Other Relevant Activities:

1. Iqbal Ch. 5 Discussion Questions 21, 23 and 25 (p. 178)
2. Iqbal Ch. 5 Exercises 5-16 and 5-17 (pp. 182-3).

Week 4 (20 August)

TOPIC 4: Financial reporting in six economically developed countries: France, Germany, Japan, the Netherlands, UK and USA.

Reading:

1. Choi Ch. 3.
2. Iqbal Ch. 6 pp. 190-1, 193-200 (The Netherlands, Germany, Japan and USA).
3. Stolowy, H. and Y. Ding, "Regulatory Flexibility and Management Opportunism in the Choice of Alternative Accounting Standards: An Illustration Based on Large French Groups," **International Journal of Accounting** (Vol. 38, No. 2, 2003), pp. 195-213.
4. Peaple, A., "Going International," **Accountancy** (March 2002), pp. 102-3. (Japan's accounting standards are undergoing a painful revolution.)
5. Nocera, J., "System Failure," **Fortune** (June 24, 2002), pp. 48-58. (Claims a systemic breakdown occurred in USA.)

Assignments for Possible Hand-in:

1. Choi Ch. 3 Discussion Question 1 (p. 97). How would you characterise the six countries discussed in Ch. 3 of Choi?
2. Choi Ch. 3 Exercises 1, 2 and 5 (pp. 98-9).

Cases for Student Presentation:

1. Choi Case 3-1: A Rose by Any Other Name (pp. 100-13).
2. Choi Case 3-2: Kiwis Cannot Fly, But at Least When Troubles Loom, They Keep Their Heads Out of the Sand (pp. 114-7)

Other Relevant Activities:

1. Choi Ch. 3 Discussion Questions 2, 3, 4 and 6 (p. 97)
2. Choi Ch. 3 Exercises 8 and 10 (p. 99)
3. Iqbal Ch. 6 Discussion Question 20 (p. 225)

Week 5 (27 August)

TOPIC 5A: Accounting for inflation and changing prices internationally

Reading:

1. Iqbal Ch. 3.
2. Choi Ch. 7 pp. 252-63, 267-8, 270-1.

Assignments for Possible Hand-in:

Iqbal Ch. 3 Exercises 3-2, 3-3, 3-4 and 3-5 (pp. 107-9)

Case for Student Presentation:

Iqbal Ch. 3 Case: Accounting for Changing Prices (p. 113)

Other Relevant Activities:

1. Iqbal Ch. 3 Discussion Questions 1, 2, 3, 4, 5, 6, 7, 10, 11, 12, 14, 15 and 16 (p. 105)
2. Choi Ch. 7 Discussion Questions 1, 4, 5, 6 and 8 (pp. 283-4)

TOPIC 5B: Reasons for international financial reporting differences including an evaluation of the Nobes (1998) model

Reading:

1. Nobes, C., "Towards a General Model of the Reasons for International Differences in Financial Reporting," **Abacus** (September 1998), pp. 162-187.
2. Reconsider reading for Topic 3A.

Questions for Possible Hand-in:

Choi Ch. 2 Discussion Questions 9 and 11 (p. 59)

Cases for Student Presentation:

1. Choi Case 2-1: Are Classifications of Accounting Outmoded? (p. 62)
2. Choi Case 2-2: MAN AG (pp. 63-4)

Other Relevant Activities:

Choi Ch. 2 Discussion Question 12 (p. 59)