

## INTERNATIONAL REPORTING AND CONTROL

### SYLLABUS

At a recent presentation to accounting faculty, Mr. Duane Still, CFO of Coca-Cola, noted several characteristics of people who performed best in their accounting and finance functions.

Copying some of his bullet points:

- Ask "why?" and challenge convention.
- See emerging trends and patterns "ahead of the curve."
- Can see the "big picture" but still get into the details.
- Don't just give numbers but can tell what they mean.

His general point was that although the "micro" grasp of accounting is important, it is not enough without a higher level, "macro" view of what accounting is all about, where it is going, what it means.

Our program is very strong in training you for the "micro" understanding that will be tested on the CPA exam. This course is meant to broaden your understanding of accounting, by putting US into an international perspective and by understanding some broad principles that underlie the "micro" level rules.

Instructor	Frederick Lindahl Office: Fungler 601U Tel: 994-5639 E-mail: lindahl@gwu.edu
Class	ACCY 6110 / IBUS 6308 CRN (ACCY): 83497 / (IBUS) 83498 Rome Hall, 3:30-6:00, Tuesday
Course description	This is a course that deals with topics related to accounting, taxation and corporate governance in an international setting. The topics are general in nature, and do not delve into accounting principles or provisions of tax codes. This course can be followed by either or both of two other courses, one an international accounting course (ACCY 6111 / IBUS 6309) that involves

	<p>accounting principles, financial statement analysis and auditing standards.</p> <p>The other course is IFRS (also ACCY 6112 / IBUS 6310), a course that builds on a foundation of US GAAP (developed in financial accounting) to learn where the the international standards differ.</p>
Learning objectives	<p>You will appreciate the role of financial accounting in corporate governance, and see why and where international differences in reporting occurs. You will study particular conditions in emerging economies. You will understand the philosophical underpinnings of international debates over “rules vs. principles” and fair value reporting.</p>
Class Preparation	<p>I will not take attendance, but I will present information in class that is not in the homework material, and you will be responsible for that information. We will discuss some of the assigned homework in class, so you should have made a good-faith effort to complete it. In this way you will benefit from the discussion and can contribute to it.</p> <p>We will have periods devoted to case discussion; you should prepare by analyzing the business situation, considering alternative courses of action, and making a recommendation. I will call on students to present and justify their analysis.</p>
Homework preparation	<p>I will collect and grade some homework, and these assignments are listed on the homework assignment sheet. I encourage you to work these problems as completely as you can before coming to class. If you do not work the homework problems before class, you may have difficulty in this course.</p>
Case preparation	<p>There are case discussions assigned. Each of them has a list of "discussion questions." These are to help you frame an analysis; they are not the whole analysis. In the end, you should decide on a course of action, and defend your decision with a careful analysis of alternatives.</p>
Required texts	<p>There is no assigned textbook, but readings, cases, and other course material will be distributed. I will use Blackboard to the maximum extent, though some of the handouts will be in paper form.</p> <p>We will use one HBS case. You can obtain this as a “coursepack” from Harvard Business Publishing. The link is:</p> <p><a href="http://cb.hbsp.harvard.edu/cbmp/access/65981073">http://cb.hbsp.harvard.edu/cbmp/access/65981073</a></p> <p>Note that even if you've used coursepacks before, you must “register” for this coursepack.</p>
	<p>60% of the grade will be based on the final examination. This will cover every part of the course, with a slight emphasis on topics covered in the</p>

	<p>second half.</p> <p>20% of the grade will be based on papers and homework to be handed in.</p> <p>20% of the grade will be based on participation during class periods.</p>
Academic Integrity	<p>On March 10, 1995, The George Washington University adopted a <i>Code of Academic Integrity</i>. This code strictly governs your conduct and mine in this course.</p> <p>For <u>my part</u>, I have the obligation to provide a clear explanation of permissible conduct in preparing assignments.</p> <ul style="list-style-type: none"> <li>• The quizzes and final examination are individual projects. The specific directions will accompany the exams, but in no case will sharing of calculators or any other form of cooperation be permitted.</li> <li>• You are free to cooperate on the cases and homework problems before class; in fact, I encourage it. Do not simply <i>copy</i> each other's homework solutions, however.</li> </ul> <p>For <u>your part</u>, be familiar with the <i>Code</i>. If you have any question about its applicability to any part of this course, please let's discuss it.</p>
Supplemental material	<p>Although I don't usually promote commercial products, I think I can in good conscience advise you to take advantage of this <i>very cheap</i> offer. <i>The Wall Street Journal</i> contains some international news, but it is also a good way to become familiar with the US business culture.</p> <p><b><a href="http://WSJ.com/studentoffer">WSJ.com/studentoffer</a></b></p>

## Content

### **Class 1:** Corporate Governance

We are generally familiar with US institutions from our US-centric focus in our accounting curriculum. Compared with US institutions and practices, what are differences in other countries, and how do they affect outcomes, particularly accounting outcomes?

The Coffee article is to open up the perspective that what's true in one place isn't necessarily true in the rest of the world. The Royal Ahold "case" is a close look at a non-US accounting scandal (not entirely outside the US).

*Reading: "A Theory of Corporate Scandals," J. Coffee*

*Case: Europe's Enron: Royal Ahold, N.V.*

### **Class 2:** Legal Systems and Corporate Governance

A large part of corporate governance is determined by law. Understand how the law, or more generally the legal system, shapes corporate governance. By understanding differences in legal systems, we can better grasp why there might be differences in financial outcomes.

The first reading is a highly cited article about differences in investor protection around the world. The second uses La Porta et al. as its subject. It is also a nice link between Coffee's paper on ownership structure and La Porta et al.'s paper on investor protection.

*Reading: La Porta et al., "Law and Finance"*

Thought questions: the article is rather long. To guide your approach, please try to get the general approach and findings.

- *What is the difference between common vs. civil, noting that there is another distinction within civil?*
- *How did they do their comparison?*
- *What did they look for, and why?*
- *What are the two elements of investor protection?*
- *How did they arrive at final scores?*
- *What does the final score look like? Who won? Who lost?*

*Reading: Bebchuk and Hamdani, "The Elusive Quest for Global Governance Standards," University of Pennsylvania Law Review, May 2009.*

Please **turn in** a one-page memo discussing the role of accounting in corporate governance, and how it might differ among countries.<sup>1</sup>

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<sup>1</sup> In the past there has been some confusion. To be clear, when it says, for class 2, to turn in a memo, the memo should be turned in during class 2.

### **Class 3:** Accounting and emerging markets

What are the conditions in emerging markets that differ from the US, and how do they affect accounting outcomes?

#### Financial accounting:

“Implementation of IFRS for SMEs in Emerging Economies: Stakeholder Perceptions in the Czech Republic, Hungary, Romania and Turkey,” *Journal of International Financial Management & Accounting* 24, 2013, pp.140-175.

The purpose of this assignment is to understand how developing countries differ from developed countries in regard to financial reporting practice. It is the developed countries that attract almost all the attention in the business press. But IFRS has been adopted in more than 100 countries, and only a minority of those countries are industrialized economies. It is useful to expand our perspective beyond those few countries and their large companies.

You are seeking deeper knowledge about the state of financial reporting in emerging economies. This paper starts that search. How much can you learn from it? **Write** a critical assessment (no more than one page) about this study. What are its strengths and what are its weaknesses?

#### Management accounting:

“Political Constraints, Organizational Design, and Performance Measurement in China's State-Owned Enterprises,” N.G. O'Connor et al.

### **Class 4:** Rule-based and principles-based accounting systems

It is said that US GAAP is rules-based. How do accounting standards used in other countries differ? Are there differences in outcomes such as accounting quality?

*Reading assignments:* “Evading Enron: Taking Principles Too Seriously In Accounting Regulation” by David Kershaw

Think about the accounting for a particular class of assets or liabilities; for example, accounting for inventory. Recognizing that “rules” and “principles” are not always easily distinguishable (not “black and white”), **turn in** a memo about what you think are the rules for inventory accounting and what are the principles.

You don't have to choose inventory. The following might also be interesting.

- Investments
- leasing
- contingent liabilities
  - or something else of your choosing.

### **Class 5:** International Segment Reporting

There are not large differences in the segment reporting rules between the US and other countries. The objective in this class is to discover how well segment reporting allows you to understand how a MNE's businesses are performing in an international context.

*Reading assignment:* "International Segment Reporting" (handouts)

Please choose two companies from different countries. Match them by industry (you may not find an exact match, but try to select two that are in similar lines of business; for example, food retailers, or industrial equipment, or pharmaceutical products).

Compare their segment reporting, and write and **turn in** a short memo on what you find. You might use the Exercises in the handout to organize your analysis and answers.

### **Class 6:** International taxation

The curriculum contains a thorough treatment of US tax law. Most large businesses have transactions in other countries, often through subsidiaries. Furthermore, many US businesses are the subsidiaries of foreign parents. Do the principles you learned in your US tax courses allow you to understand how a US firm will be taxed in other countries?

*Reading assignment:* "International Taxation and Transfer Pricing" (handout)

*Homework:* Please find the Global Electronics case in Bb. Please **turn in** answers to parts 1 and 2.

### **Class 7:** Fair value

FV now pervades financial reporting in the most important accounting standards (GAAP, IFRS). Are there any differences that one encounters when moving from the US to the international arena?

*Case:* Land Securities Group (A) Choosing Cost or Fair Value on Adoption of IFRS

*Discussion questions:*

1. Assume there are three separate real estate companies: US Realty (which applies the cost model), UK Realty (which applies the revaluation model), and International Realty (which applies the fair value model). Assume that on 31 Dec 2003, each company pays £1,000 cash to obtain investment property comprising land with negligible value and an office building worth £1,000. The building has a ten year useful life, has no residual value, and is expected to provide a constant stream of economic benefits over time.

What is the accounting entry for each company for the following four scenarios?

- a. on 31 Dec 2003, at acquisition
  - b. on 31 Dec 2004, assuming the investment property fair value is £1,300
  - c. on 31 Dec 2005, assuming the investment property fair value is £1,100
  - d. on 31 Dec 2006, assuming the investment property fair value is £500
- Using the above illustrations, as well as Exhibit 11, as references, what financial analysis challenges arise as a result of these differing accounting models?

2. Which model (cost, revaluation or fair value) provides the most relevant information? Which model provides the most reliable information?
3. How does each model affect Land Securities' balance sheet? Income statement? Can the firm assess the effect of adopting the fair value model on previous years' key performance metrics such as "profit on ordinary activities"?
4. Which model, cost or fair value, would you recommend Land Securities adopt? Why?
5. The FASB and IASB are actively seeking to eliminate differences between US and international accounting standards. However, investment properties are reported under the cost model in the US, while IFRS allows either the cost or fair value method. Should the FASB also allow the fair value model?

### **Final exam**