

Chapter 2

Multiple Choice

Learning Objective #2.1: Discuss different ways to identify and classify accounting systems internationally

1. According to the **deductive approach**(演绎法) to accounting classification,
 - __a. accounting practices are analyzed and used to develop accounting groups.
 - __b. international accounting groups are developed by **linking environmental factors to national practices.** (将环境与 national practice 结合)
 - __c. it is impossible to compare countries due to cultural differences.
 - __d. disclosure groups are not as significant as are measurement groups in classifying countries.
2. According to the **inductive approach** (归纳法) to accounting classification,
 - __a. **accounting practices are analyzed and used to develop accounting groups.**
 - __b. international accounting groups are developed by linking environmental factors to national practices.
 - __c. it is impossible to compare countries due to political differences.
 - __d. Mueller classifies accounting systems into the following patterns: macroeconomic, microeconomic, independent discipline, and uniform accounting.
3. The **Mueller** system of classifying countries for accounting purposes **based on their business and economic environments** is an example of
 - __a. deductive classification.
 - __b. inductive classification.
 - __c. the inability to classify countries for accounting similarities.
 - __d. cultural relativism.
4. The hypothetical classification for financial reporting developed by **Christopher Nobes**
 - __a. is an inductive approach to classification.
 - __b. is a **hierarchical scheme** of classification that distinguishes countries according to microeconomic and macroeconomic systems.
 - __c. uses the Price Waterhouse data to group countries.
 - __d. classifies countries according to measurement and disclosure practices.

5. The **Nair and Frank approach** to accounting classification
- a. classifies countries according to economic similarities.
 - b. classifies countries according to cultural similarities.
 - c. is a good example of a deductive approach to classifying countries.
 - d. classifies countries according to **similarities in measurement and disclosure practices.** (依照相似度来分类)
6. Which of the following accurately reflects the **status of research** in the classification of countries in terms of accounting practices?
- a. the deductive approach is superior to the inductive approach.
 - b. the inductive approach focuses too much on environmental factors rather than accounting practices.
 - c. narrow country groupings are possible due to advances in research methodology.
 - d. **only very general relationships between environmental factors and accounting systems have been established.**

Learning Objective #2.2: Examine the key dimensions of national culture and how they influence behavior in work situations

7. Which of the following are cultural values developed by Hofstede?
- a. professionalism.
 - b. statutory control.
 - c. power distance.
 - d. conservatism.
8. Large power distance as a cultural value implies that
(大的权力距离→人们害怕上司→ 接受等级制度)
- a. people have a preference for a loosely knit social framework in society.
 - b. people **accept a hierarchical order.**
 - c. people strive for power equalization and demand justification for power inequities.
 - d. people maintain a relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated.

9. Individualism as a cultural value implies that (个人主义, 比较自由)

- __a. people have a preference for a loosely knit social framework (宽松的氛围)in society.
- __b. people accept a hierarchical order.
- __c. people strive for power equalization and demand justification for power inequities.
- __d. people maintain a relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated.

10. Small power distance as a cultural value implies that (没有距离感, 相互之间是平等的)

- __a. people have a preference for a loosely knit social framework in society.
- __b. people accept a hierarchical order.
- __c. people strive for power equalization and demand justification for power inequities.
- __d. people maintain a relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated.

11. Weak uncertainty avoidance as a cultural value implies that

- __a. people have a preference for a loosely knit social framework in society.
- __b. people accept a hierarchical order.
- __c. people strive for power equalization and demand justification for power inequities.
- __d. people maintain a relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated. (不想有风险, 想在有舒适环境的地方)

12. Confucian dynamism is a cultural value which:

- __a. emphasizes a dynamic approach to business.
- __b. refers to a short-term versus long-term orientation to business.
 - ST-tradition
 - LT-the adaption of traditions to meet modern needs
- __c. a Chinese value adopted as a Chinese accounting principle.
- __d. is associated with a religious order in China.

Learning Objective #2.3: Identify accounting values that influence comparative accounting practice

13. Which of the following are accounting cultural values developed by Gray?

- a. individualism.
- b. large power distance.
- c. masculinity.
- d. professionalism.

Accounting Values

Having identified societal values, is it possible to identify significantly related accounting values at the subcultural level of the accountant and accounting practice? Gray (1988) proposed the identification of four accounting values, derived from a review of accounting literature and practice, as follows:

1. *Professionalism versus statutory control*: This value reflects a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control.
2. *Uniformity versus flexibility*: This value reflects a preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time, as opposed to flexibility in accordance with the perceived circumstances of individual companies.
3. *Conservatism versus optimism*: This value reflects a preference for a cautious approach to measurement that enables one to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach.
4. *Secrecy versus transparency*: This value reflects a preference for confidentiality and the disclosure of information about the business only to those who are most closely involved with its management and financing as opposed to a more transparent, open, and publicly accountable approach.

What arguments are there to support these accounting value dimensions? How do they relate to societal values? What impact are they likely to have on the development of national accounting systems?

Professionalism, Statutory Control, Uniformity, Conservatism, Secrecy, Transparency

14. According to the **flexibility** cultural value in accounting,

- a. there is a preference for permitting governments to establish uniform, yet flexible, standards.
- b. there is a preference for confidentiality and the restriction of disclosure of information.
- c. firms tend to be more open and publicly accountable.
- d. accountants are more concerned with the **perceived circumstances** (更注重感官的环境) of individual companies.

15. Large power distance is more compatible with which accounting value?

- a. professionalism.
- b. **uniformity**, 一致性
- c. transparency.
- d. none of the above.

16. Individualism is more compatible with which accounting value?

- a. statutory control.
- b. uniformity.
- c. flexibility.
- d. collectivism.

17. Conservatism is more compatible with

- a. individualism.
- b. collectivism.
- c. strong uncertainty avoidance. (毕竟保守)
- d. optimism.

Learning Objective #2.4: Show how cultural values and accounting values relate to each other in the development of accounting standards and practices worldwide

18. A major accounting value that relates to enforcement and authority of accounting systems is

- a. statutory control.
- b. secrecy.
- c. optimism.
- d. conservatism.

19. A major accounting cultural value that relates to accounting disclosure is

- a. professionalism.
- b. uniformity.
- c. individualism.
- d. transparency.

20. A major accounting cultural value that relates to accounting measurement is

- a. collectivism.
- b. conservatism.
- c. secrecy.

d. power distance.

21. All of the following affect **secrecy and transparency** except

- a. measurement of assets and profits
- b. individualism and collectivism
- c. power distance
- d. uncertainty avoidance



22. The concept of presenting a “**true and fair view**” of a company’s financial statements depends heavily upon

- a. **professionalism**(一般有知识的人才比较合理看待问题)
- b. uniformity.
- c. Confucian dynamism
- d. secrecy.

Learning Objective #2.5: Compare accounting systems in the Anglo-American, Nordic, German, Latin, and Asian countries

23. **Anglo-Saxon countries** would tend to reflect which of the following accounting values?

- a. **transparency**.
- b. secrecy.
- c. conservatism.
- d. uniformity.

24. **Germanic countries** would tend to reflect which of the following accounting values?

- a. optimism.
- b. transparency.
- c. flexibility.
- d. **secrecy**.

25. In the **United Kingdom**,

- a. the Company Law is only followed by listed companies.

- ___b. the "true and fair view" had to be adopted by the British, even though that is not what they wanted.
- ___c. there is no accounting standard setting board due to the strength of the profession.
- ___d. **the "true and fair view" represents a flexible approach.**
26. Which of the following accurately reflects **British accounting**?
- ___a. The company law in Britain is fairly narrow, because it only applies to companies listed on the London Stock Exchange.
- ___b. There is **significant influence** by the **accountancy profession and the stock exchange** as compared with Germany.
- ___c. The European Union has not had much of an influence on British accounting due to the primacy of the true and fair view.
- ___d. The Accounting Standards Board is funded and controlled by the Ministry of Trade and Industry rather than the independent profession.

27. Which of the following accurately reflects **German accounting**?
- ___a. **Tax law is influential**, because annual accounts are the basis for tax accounts.
- ___b. The stock market is the major source of funding in Germany, so accounting reflects the needs of investors.
- ___c. The Germans influenced the 4th Directive of the European Union through the introduction of the true and fair view.
- ___d. German companies depart from historical cost through widespread use of current value accounting.

Learning Objective #2.6: Identify the major international pressures for accounting change

28. **International forces** for change:
- ___a. directly affect accounting values
- ___b. **do not directly affect accounting values**
- ___c. directly affect accounting systems (不会直接影响会计界)
- ___d. do not directly affect physical environment factors

29. The EU has embarked on a **major program of harmonization** that will coordinate all of the following except

a. accounting

b. company law

c. monetary systems

d. **urbanization**

30. Which group is providing environmental impact guidelines for MNEs

a. NBA

b. ATF

c. **OECD**

d. AAA

31. In order to foster international economic and social development the OECD has issued

a. the General Agreement on Tariffs and Trade

b. the G7 accord

c. the Potsdam declaration

d. **a Code of Conduct**

32. Which group is leading the effort to harmonize audit standards?

a. FASB

b. SEC

c. **IFAC**

d. AAA

Chapter 5

Learning Objective #5.1: Assess the importance of international accounting differences from the perspective of financial analysts and other users of financial statements

1. For purposes of financial analysis it is important to assess the differential impact of accounting principles on

- a. return on equity
- b. professionalism
- c. individualism
- d. power distance

2. The most popular exchange to be listed on is:

- a. Nasdaq
- b. New York
- c. Euronext
- d. London

3. In similar economic environments or situations

- a. accounting diversity is logical
- b. accounting diversity is illogical and leads to noncomparable results
- c. results may or may not be comparable
- d. accounting treatment does not matter

4. Problems and costs arising from international accounting diversity

- a. are not restated by financial statement users
- b. affect 95 percent of financial statement users according to Choi and Levich
- c. are very real (实打实的问题和成本)
- d. affect 25 percent of financial statement users according to Choi and Levich

5. In attempting to value a foreign corporation, there is a tendency

- a. not to restate the financial statements
- b. to use the London exchange market values
- c. to be conservative
- d. to look at earnings from a home country perspective (用本土眼光看世界)

Learning Objective #5.2: Identify major differences in accounting principles around the world that affect financial results

6. Historical cost is frequently modified by revaluations in

- a. the United States.
- b. the Asian countries.
- c. the United Kingdom and the Netherlands.
- d. Germany.

7. R&D costs are required to be expensed immediately in

- a. the Asian countries.
- b. the United States.
- c. Sweden.
- d. the United Kingdom.

8. Goodwill

- a. is amortized in the United States
- b. is immediately expensed in Japan
- c. is amortized in Britain
- d. is subject to an impairment test in Britain.

9. Intangibles, such as brands, publishing rights, and patents are generally capitalized except in

- a. the United States.
- b. the Asian countries.
- c. Switzerland
- d. Sweden.

10. The treatment of inventory in Britain differs from that of the United States in that

- a. the British approach to inventory measurement is much less restrictive.
- b. FIFO is not permitted in Britain.
- c. LIFO is not permitted in Britain.
- d. in the United States, LIFO is not permitted.

Learning Objective #5.3: Provide a quantitative analysis of how differences in accounting principles can impact on the reported earnings of U.S. and U.K. firms and the analysis of comparative performance

11. Which of the following accurately describes the **differences between the United States and the United Kingdom** in terms of **conservatism in earnings** measurement?

- a. The British tend to be more conservative in earnings measurements than do Americans.
- b. British earnings are higher than U.S. earnings because U.S. firms tend to capitalize interest costs relating to certain types of assets during acquisition or construction.
- c. U.S. earnings tend to be **lower** than British earnings since U.S. firms capitalize and amortize goodwill.
- d. none of the above.

12. Assume that translated U.K. earnings are \$100 and U.S. earnings are \$120. The index of conservatism is

- a. .800 (U.S. is more conservative)
- b. .800 (British is more conservative)
- c. 1.200 (U.S. is more conservative)
- d. 1.200 (British is more conservative)

13. According to **Form 20-F of the U.S. SEC**,

- a. U.S. firms are required to disclose the amount of their foreign earnings.
- b. foreign firms are required to **reconcile their earnings with what earnings would have been under U.S. GAAP**.
- c. foreign firms do not have to disclose the reasons why their GAAP differs from U.S. GAAP, only the amount of the difference.
- d. the index of conservatism must be disclosed in order to determine the degree to which income differs under different GAAP.

14. It is possible to determine the **degree of conservatism of U.K versus U.S. GAAP**, because

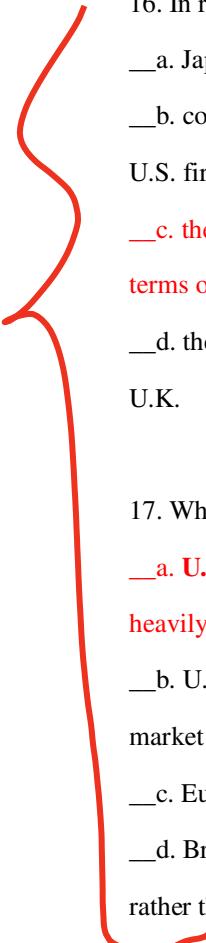
- a. British firms must disclose the difference due to London Stock Exchange requirements.
- b. British firms voluntarily disclose the difference in order to attract U.S. investors.

- c. British firms who list an American Depository Receipt (ADR) or an actual share in the United States must disclose the difference in earnings.
- d. all of the above.

15. As a result of research on the degree of conservatism among **U.S. and British firms**, it was found that

- a. British and American firms are about the same in terms of the degree of conservatism.
- b. British earnings are more conservative than are U.S. earnings.
- c. U.S. earnings are more conservative than are British earnings.
- d. goodwill is not as significant a factor in determining earnings differences as was once thought.

Learning Objective #5.4: Show how reported earnings are affected by differences in accounting principles in other parts of the world, with special reference to continental Europe and Japan.

- 
16. In ranking countries in terms of **conservatism**,
- a. Japanese firms tend to be less conservative than U.S. firms.
 - b. continental European firms tend to be more conservative than British but less conservative than U.S. firms.
 - c. the **Anglo-Saxon** countries are **less conservative** and Germanic countries more conservative in terms of earnings.
 - d. there has been no research on the conservatism of earnings of countries other than the U.S. and U.K.

17. When comparing the relative **conservatism of U.S. versus foreign companies**,
- a. **U.S. firms tend to be less conservative than Japanese firms**, because Japanese firms are more heavily influenced by tax law.
 - b. U.S. firms are more conservative than Continental European firms due to the dominance of capital market disclosures in the United States.
 - c. European firms are less focused on tax law than are the U.S. firms.
 - d. British firms are more conservative than U.S. firms, because they tend to take goodwill to income rather than to equity as is the case in the United States.

18. Given what you know about the differences in conservatism between the U.S. and U.K., which of the following statements is most accurate?

- a. return on equity and the debt/equity ratio would usually be lower under U.K. GAAP than it would be under U.S. GAAP.
- b. return on equity would usually be higher and the debt/equity ratio lower under U.K. GAAP than under U.S. GAAP.
- c. return on equity would usually be lower and the debt/equity ratio higher under U.K. GAAP than under U.S. GAAP.
- d. **return on equity and the debt/equity ratio would usually be higher under U.K. GAAP than under U.S. GAAP.**

19. An earnings adjustment index based on US GAAP showing the **comparative impact of international accounting differences on earnings**

- a. has Germany at the top
- b. has Japan on the bottom
- c. has the U.S. at the top 90
- d. has the U.K. at the bottom

20. **Income statement information** is more informative in

- a. Britain.
- b. Japan.
- c. **the United States**
- d. Germany

Learning Objective #5.5: Review developments in an effort to achieve global accounting convergence.

21. **Research on the stock market**

- a. is certain about the international accounting differences and the US stock market
- b. **shows value relevance for Form 20-F reconciliations**
- c. of Pope and Rees indicates that the UK GAAP earnings adjustment information has incremental information for dual listed firms in the US and UK
- d. greater power distance for non US firms

22. The stock market is a dominant influence on earnings in

- a. the UK and US
- b. Japan
- c. continental europe
- d. countries with extensive infrastructure

23. The IASC was founded by

- a. the UN
- b. the OECD
- c. the AICPA
- d. professional national accounting organizations

24. The number of companies that follow IASC standards

- a. has declined from its founding
- b. has remained about the same from its founding
- c. has increased from its founding (每年在逐步增加)
- d. none of the above

25. Currently, international standards

- a. are developed to allow substantial flexibility
- b. promote uniformity
- c. are designed to reduce transparency
- d. are developed by the IDOT

Chapter 6

Learning Objective #6.1: Explain the importance of corporate transparency and information disclosure

1. The increased supply of financial information by MNEs appears to have
 - a. satisfied labor unions but not governments.
 - b. resulted in more precise disclosure requirements by governments.
 - c. resulted in the demand for additional information.
 - d. resulted in a greater simplification in financial statements.

2. The concept of user comprehension implies that
 - a. understandability is improved with more information.
 - b. greater information is making financial analysis more complex.
 - c. the simplification of annual reports is leaving out information not necessary for financial analysis.
 - d. all of the above.

3. All of the following international organizations are now issuing more detailed accounting requirements except
 - a. PGA
 - b. UN
 - c. OECD
 - D. IASC

4. The recent Asian financial crisis
 - a. might have been prevented with decreased transparency
 - b. was the result of inconsistent accounting standards
 - c. could have been prevented with better computer systems
 - d. might have been prevented with increased transparency

5. Transparency

- a. is consistent with confidentiality
- b. is not an issue if the corporate report has reliable information
- c. helps investors distinguish between good and bad quality firms
(因为公开透明所以可以看出企业内部质量问题)
- d. associates directly with the level of corruption

Learning Objective #6.2: Show how annual report disclosures are an important way of communicating to stakeholders

6. Which of the following is true concerning managerial incentives to disclose information?

- a. More information increases uncertainty about financial performance.
- b. More disclosure increases the cost of capital, causing stock prices to fall.
- c. Information disclosure is usually neutral.
- d. More information usually helps managers get better access to external capital.

7. The disclosure of information that would help another firm know more about your firm would be an example of

- a. the direct cost of disclosure.
- b. the cost of information production.
- c. the cost of competitive disadvantage.
- d. why government needs to regulate accounting disclosure.

8. Which of the following are considered by managers to generate **the greatest cost of competitive disadvantage**?

- a. line of business profits, narrowly defined.
- b. inflation adjusted profits.
- c. a description of organizational structure.
- d. quarterly interim financial statements.

9. The value of the **annual report** as opposed to just the financial statements is that

- a. the annual report must contain a quantitative forecast of earnings.

b. management can provide a good qualitative discussion of the financial information. (好报告, 好质量)

c. financial information is usually not very accurate, so potential investors can rely more on management impressions.

d. management is more likely to provide more financial information in its annual report than it is in its financial statements.

10. Simplifying information in annual reports

a. may increase the size of annual reports.

b. could decrease the cost of capital.

c. could reduce the readership of financial reports.

d. may result in the omission of essential information useful to the direct users.

Learning Objective #6.3: Evaluate the incentives to disclose information and the costs involved

11. The mutuality of interests concept related to information disclosure implies that

a. disclosure may help users be more aware of common interests, improving cooperation.

b. increased disclosure increases uncertainty about financial performance.

c. user benefits always exceed costs.

d. it is difficult to measure the costs and benefits of disclosure.

12. The direct costs of disclosure involve the

a. threat of takeover or merger.

b. cost of data collection and processing.

c. possibility of intervention by government agencies.

d. possibility of claims from political or consumer groups.

e. all of the above.

13. The cost of audit and communication is an example of

a. the direct costs of disclosure.

b. cost of competitive disadvantage.

c. indirect costs of disclosure.

d. the benefits of increased disclosure.

14. The indirect costs of disclosure involve the

a. threat of takeover or merger.

b. cost of data collection and processing.

c. cost of auditing.

d. cost of publication.

15. Competitive disadvantage

a. of increased disclosure will likely increase business incentives in the long term

b. affects the cost of data collection and processing.

c. is the most important cost factor in voluntary disclosures (义务公开消息, 有的人不公开担心泄密)

d. increases direct disclosure costs

Learning Objective #6.4: Review international disclosure regulation and reporting

16. The EU 4th and 7th Directives require

a. the quantification of a forecast of earnings.

b. the discussion of R&D analyzed by product.

c. an indication of important events since the end of the year and any likely future development.

d. any environmental measures taken.

17. In terms of Research and Development (R&D) and capital investments,

a. few firms disclose R&D information.

b. Germany, Japan, the Netherlands, Switzerland, and U.K. all exhibit higher levels of disclosure in both R&D and investment programs than most other countries.(这些国家都是谨慎的国家, 很注重公开)

c. all firms are required by the U.N. to disclose their capital investment program, and compliance is quite high.

d. it is very common for companies to disclose their investment program by geographical area.

18. The overall amount of voluntary disclosures is
- a. highest from continental European companies 欧洲人比较自觉
 - b. highest from US companies
 - c. highest from UK companies
 - d. lowest from continental European companies

19. Why does Switzerland have one of the lowest levels of disclosure
- a. the size of the market is very high
 - b. the size of the market is small
 - c. a sophisticated regulation system
 - d. secrecy is highest

20. The overall quantity and levels of disclosure
- a. is generally similar across the world
 - b. is the lowest in London
 - c. is the highest in Switzerland
 - d. has significant variation in the world

Learning Objective #6.5: Highlight important issues found in corporate reports, such as the chairperson's statement, the review of corporate strategy and result, external and unusual events, acquisitions and disposals, human resources, social responsibility, R&D, capital investment, and future prospect

21. Human resource information
- a. is essential for investors and shareholders.
 - b. especially in the area of labor and employment is more detailed and helpful in U.S. reports than in European reports.
 - c. is provided in a format that is required by the IASC.
 - d. none of the above.

22. The value added statement
- a. provides information about the contribution of all corporate stakeholders to the success of the business.

- b. is used to determine how much value-added tax corporations pay.
- c. is generated primarily for potential investors and shareholders.
- d. is provided by the majority of European companies, although it is rarely provided by U.S. firms.

23. Social responsibility information
- a. focuses on accountability to society as a whole rather than just employees.
 - b. deals with issues other than community welfare, public safety, and the environment.
 - c. is easy to provide, since firms can easily measure the costs and benefits of providing the information.
 - d. all of the above.
24. Information regarding to future prospects
- a. is rarely provided in annual reports.
 - b. is usually in the form of a narrative rather than in quantitative terms.
 - c. is not considered to be a threat from a competitive disadvantage point of view since all firms are required to disclose this information if they list on a stock exchange.
 - d. is not very high in the United States due to the investor orientation.
24. A mission statement
- a. is what the chair person gives
 - b. is part of a capital expenditure program
 - c. is increasingly included in a review of corporate strategy and results
 - d. is included with other value-added information
- Learning Objective #6.6: Describe other types of corporate disclosures, such as the review of operations, including segmental information and results**
25. In terms of segment information,
- a. segment reviews of operations are not very well established.
 - b. segment disclosures are required by the U.N. but only recommended by the EU.
 - c. it is common to find a review of business segments.
 - d. the review of business segments rarely provides information in excess of the actual segments.
26. Segment reviews of operations on a geographical basis are
- a. usually incorporated in the review of business segments.
 - b. separately discussed by a majority of MNEs.
 - c. rarely provided by MNEs.

__. provided by most MNEs except those from Japan.

27. In terms of the financial review,

- __a. it is not very common for companies to provide an analysis of results.
- __b. U.S. companies tend to provide more detailed information in their financial review, especially with regard to events having a potential impact on earnings.
- __c. most companies analyze their asset values and the impact of inflation on values.
- __d. very few companies analyze liquidity and capital resources.

28. Which country provides segment disclosure on a basis of managerial organization

- __a. UK
- __b. Japan
- __c. Italy
- __d. US

29. Inflation accounting

- __a. is given by most MNEs
- __b. is required in Japan
- __c. is found in South America
- __d. is required in US GAAP

Learning Objective #6.7: Review issues relating to the frequency and timeliness of corporate reporting internationally

30. Which of the following are considered by managers to generate the greatest net costs?

- __a. a description of major environmental projects.
- __b. geographical sales, broadly defined.
- __c. a description of major new products.
- __d. inflation adjusted profits.

31. In terms of interim reports,

- __a. the EU 4th Directive requires that companies disclose quarterly reports.

b. a major difference between the U.S. and Canada is that the U.S. requires quarterly reports, but the Canadians follow the European tradition of not requiring quarterly reports.

c. EU companies are required to provide semiannual reports of abridged information.

d. the SEC requires all foreign firms that list in the United States to provide quarterly earnings information.

32. The EU Directive on Interim Reports

a. makes no requirement how often reports must be issued

b. requires half yearly reports

c. requires annual reports

d. requires quarterly reports

33. In terms of interim reports,

a. the IASB requires that companies disclose quarterly reports.

b. the European tradition has always required quarterly reports.

c. the IASB specifies content, but does not specify frequency.

d. very few MNEs provide information beyond the EU directive

34. Canada

a. makes no requirement how often reports must be issued

b. requires half yearly reports

c. requires annual reports

d. requires quarterly reports

Chapter 7

Learning Objective #7.1: Identify the impact on MNEs of the different pressures leading to accounting harmonization and disclosure

1. As a result of the call for harmonization and better disclosure,
 - a. global investors are now able to make more informed international comparisons.
 - b. governments are better able to understand and constrain the activities of MNEs.
 - c. different information needs between and within groups may lead to conflicting demands for information.
 - d. all of the above.
2. Which of the following is true concerning the pressures for information disclosure?
 - a. Companies are not overly concerned about the demand for disclosure due to increasing sophistication of information systems.
 - b. The internationalization of capital markets is leading to the demand for more comparable information.
 - c. Corporate annual reports contain sufficient information for all user groups.
 - d. The simplification of information is leading to greater understandability of financial statements.
3. Disclosure levels vary across the world's stock markets but
 - a. disclosure in the U.S. is among the lowest.
 - b. disclosure levels in the U.K. ranks among the highest.
 - c. Swiss disclosure levels are the highest in the world.
 - d. German disclosure levels are comparable with the U.S.
4. When comparing disclosure practices of MNE worldwide,
 - a. very few firms other than those in Anglo-Saxon countries provide a review of business.
 - b. Europeans tend to disclose more information about employees than do U.S. firms.
 - c. stock market pressures are not as important a source of influence on corporate review information as are employees and governments.
 - d. none of the above.
5. Major user groups

- a. agree on what information disclosures should be mandatory
- b. can enforce compliance with standards
- c. do not all agree on what information disclosures should be mandatory
- d. none of the above.

Learning Objective #7.2: Show how governments get involved in the harmonization of accounting directly or indirectly through groups such as the UN, the OECD, and the European Union

6. Which of the following is true concerning the demand by governments for information?
 - a. Intergovernmental organizations are better than individual countries at gaining access to better information from MNEs.
 - b. Governments have not been very active in leading the call for better information.
 - c. Governments are relatively pleased with the quality of the information that they can extract from MNEs to evaluate their impact on countries.
 - d. Since all government agencies need the same information from MNEs, it is highly efficient to use published annual reports.
7. Which of the following organizations has been the most effective government organization at harmonizing accounting practices?
 - a. the United Nations.
 - b. the Organization for Economic Cooperation and Development.
 - c. the International Accounting Standards Committee.
 - d. the European Union.
8. Which of the following is true concerning the impact of the United Nations on accounting?
 - a. The U.N. generally represents the wishes of industrial countries.
 - b. It has been more effective at monitoring accounting practices than at setting accounting standards.
(制定法律比较慢)
 - c. It has not been able to establish guidelines for accounting practices due to internal disagreements.
 - d. It has been interested in nonfinancial rather than financial disclosures.

9. The European Union and the Organization for Economic Cooperation and Development differ from each other in terms of their accounting harmonization efforts, because

a. the OECD represents primarily developing countries, whereas the EU represents industrial countries.

b. the EU has the force of law behind it, whereas the OECD can only recommend disclosure practices. (EU 权力大)

c. the EU is involved only in measurement, whereas the OECD is only interested in disclosure.

d. the OECD represents the profession, whereas the EU represents governments.

10. According to the 4th Directive of the EC,

a. the "true and fair view" must be used by countries that do not have an adequate companies law.

b. accounting directives must be adopted by the accounting profession rather than included in national law.

c. all companies, regardless of size, will have to use the same financial statement formats.

d. EU companies must now adopt more similar approaches to information disclosure, classification and presentation of information, and methods of valuation.

11. According to the 4th Directive of the EU, the operational basis for the income statement means that

a. a horizontal format must be used.

b. there is a separate line item for staff costs.

c. depreciation is considered a liability.

d. cost of goods sold is presented as a line item.

12. According to the 7th Directive of the EU,

a. worldwide consolidation is required.

b. companies are required to consolidate domestic but not foreign subsidiaries.

c. a group is defined by share ownership and legal rights rather than by effective management control.

d. the equity method cannot be used for accounting for affiliates.

13. Following the issuance of several directives in the EU, including the 4th, 7th and 8th, it appears that

a. the EU is ready to issue a series of new accounting regulations.

- b. Europeans prefer to have a set of standards that all countries would follow rather than the current level of flexibility.
- c. stock exchanges are losing their influence.
- d. mutual recognition of each other's accounting standards and practices is becoming the norm.

Learning Objective #7.3: Discuss how trade unions and employees are interested in harmonizing accounting to get information that will help them formulate policy concerning MNEs

14. According to the **4th Directive** of the EU,

- a. companies must use the horizontal format for the balance sheet.
- b. the vertical balance sheet includes current liabilities with current assets.
- c. companies must report a cost of goods sold.
- d. all personnel expenses must be included as a separate line item on the income statement due to the strength of unions in Europe.

15. All of the following are **trade unions** except

- a. ETUC
- b. ICFTU
- c. WCL
- d. IASC—accounting

16. A main information concern of **trade unions** is

- a. transfer pricing
- b. inflation data
- c. production quotas
- d. stock prices

17. Trade unions do not want accounting information for interfirm comparisons, but for

- a. specific line item analysis
- b. policy formulation
- c. checking MNE labor law violations
- d. tax avoidance

18. Trade unions want accounting information

- a. for cost-volume profit analyses
- b. to make sure MNEs pay proper taxes
- c. for **contract bargaining purpose** (因为 main concern 注重的是 transfer pricing)
- d. to facilitate outsourcing

Learning Objective #7.4: Describe how the International Organization of Securities Commission (IOSCO) is representing investors in pushing for harmonization of accounting to facilitate cross-border comparisons

19. IOSCO is

- a. a part of the UN
- b. a relic of the European customs union
- c. an organization of **securities market regulators**
- d. a group of accountants

20. Investors are concerned about

- a. up-to-date measurements of earnings
- b. lack of comparability of MNEs
- c. the informational content of MNE reports
- d. all of the above

21. Analysis of MNE **aggregate results** requires knowledge of the component parts of the following except

- a. certification of the COFRI
- b. profitability
- c. degree of risk
- d. potential for growth

22. Investors have problems with MNE financial statements because

- a. **worldwide consolidations are not the norm** in all countries
- b. competitive effects of other investors

- c. FASB is the principal source of GAAP
- d. governments ask for comparability

Learning Objective #7.5: Examine how accountants, through the International Accounting Standards Committee (IASC) are pushing for harmonization

23. According to the IASC's project on "Comparability of Financial Statements,"
- a. most of the choices of accounting treatment currently permitted under International Accounting Standards have been eliminated.
 - b. all alternative treatments to accounting issues must be eliminated.
 - c. global securities exchanges are required to use IASC standards.
 - d. firms desiring to list on global exchanges must have financial statements that are comparable to national firms listed on the same exchanges.

24. Which of the following is an example of a group involved in harmonization of accounting that represents the accounting profession?
- a. the IASC.
 - b. the EU.
 - c. the OECD.
 - d. the UN.

25. The International Accounting Standards Committee requires the following segment information:
- a. There is no IASC standard at this point.
 - b. sales and profits by line of business.
 - c. sales but not profits for geographic areas.
 - d. sales but not profits for line of business.

26. The IASC stated objectives are to
- I. formulate and publish in the public interest accounting standards
 - II. work for the improvement and harmonization of regulations
 - III. try to raise stock prices

- a. I only

b. II only

c. III only

d. I and II

e. I and III

27. The International Accounting Standards Committee:

a. has a IASC standard for everything at this point.

b. has a compliance problem.

c. is primarily supported by the EU financing.

d. exists to help corporations get higher stock prices.

Chapter 10

Learning Objective #10.1: Identify the different ways that companies can account for transactions denominated in a foreign currency

The following information will be used for questions 1-6. Assume that Lewis International sells running shoes to a British importer on June 1 and that the sale is denominated at £75,000 and will be collected on July 15. Assume the treatment of FASB Statement 52 and that no forward contract is entered into. Also assume that Lewis closes its books at the end of each month. The following are the relevant exchange rates.

Spot rate on June 1 \$1.6200

Forward rate for July

 15 delivery \$1.6000

Spot rate on June 30 \$1.6100

Spot rate on July 15 \$1.5950

1. What is the dollar value of the sale as carried on the books on June 30?

a. \$120,750

b. \$120,000

c. \$119,625

d. \$121,500

2. How much cash will Lewis receive on July 15?

 a. \$120,750

 b. \$120,000

 c. \$119,625

 d. \$121,500

3. What is the amount of the foreign exchange gain or loss that it will recognize on June 30?

 a. \$1500 loss

 b. \$ 750 loss

 c. \$1125 loss

 d. \$1875 loss

 e. gain or loss is deferred

4. What is the amount of the foreign exchange gain or loss that it will recognize on July 15?

 a. \$1875 loss

 b. \$ 750 loss

 c. \$1125 loss

 d. \$ 750 gain

 e. gain or loss is deferred

5. Assuming the tax treatment for foreign currency transactions, what is the foreign exchange gain or loss on June 30?

 a. \$ 750 loss

 b. \$ 750 gain

 c. \$1125 loss

 d. \$1875 loss

 e. gain or loss is deferred

6. Assuming the tax treatment for foreign currency transactions, what is the foreign exchange gain or loss on July 15?

- a. \$1875 loss
- b. \$1125 loss
- c. \$ 375 loss
- d. \$ 750 loss
- e. gain or loss is deferred

Learning Objective #10.2: Differentiate between the process of foreign currency conversion and the process of translation

7. The process by which one currency is changed into another is known as

- a. translation.
- b. conversion.
- c. restatement.
- d. mark-to-market.

8. The spot rate is

- a. the rate quoted for delivery **within two business days.**
- b. usually higher than the forward rate.
- c. a contract rate between the corporation and the foreign exchange trader at the bank for future delivery.
- d. usually at a premium for sales and a discount for purchases.

9. The exchange rate which is **a contract rate** between the company and the foreign exchange trader at the bank for delivery **in the future** is the

- a. spot rate
- b. **forward rate.**
- c. future spot rate.
- d. current rate.

10. The process by which one currency is expressed or restated in terms of another is known as

- a. translation.
- b. conversion.
- c. mark-to-market.
- d. inversion.

11. From the standpoint of the parent company, a foreign currency is
- a. the currency in which the parent company prepares its financial statements.
 - b. any currency other than the parent currency.
 - c. the currency of the primary economic environment in which the firm operates.
 - d. the currency in the country where the foreign firm is operating.

Learning Objective #10.3: Compare the different foreign currency translation methodologies: the temporal method, and the current rate or closing rate methods

12. The currency of the primary economic environment in which the firm operates is the
- a. functional currency.
 - b. reporting currency.
 - c. historical currency.
 - d. base currency.

13. The currency in which the parent company prepares its financial statements is the
- a. functional currency.
 - b. reporting currency.
 - c. historical currency.
 - d. base currency.

14. The currency of the country where the foreign company is operating is the
- a. base currency.
 - b. parent currency.
 - c. local currency.
 - d. third country currency.

15. If a U.S.-based company has a subsidiary in Germany, and the German subsidiary imports components from Britain, the British pound would most likely be considered (from the standpoint of the German subsidiary)

- a. the local currency.
- b. a foreign currency.
- c. the functional currency.
- d. the reporting currency.

16. The reporting currency is

- a. the currency in which the parent company prepares its financial statements.
- b. any currency other than the parent currency.
- c. the currency of the primary economic environment in which the firm operates.
- d. the currency in the country where the foreign firm is operating.

17. The local currency is

- a. the currency in which the parent company prepares its financial statements.
- b. any currency other than the parent currency.
- c. the currency of the primary economic environment in which the firm operates.
- d. the currency of the country where the foreign firm is operating.

18. The translation method in which current assets and liabilities are translated at current exchange rates and other assets, liabilities and owner's equity are translated at historical exchange rates is known as the

- a. current-noncurrent method.
- b. monetary-nonmonetary method.
- c. temporal method.
- d. current rate method.

19. The translation method which uses as the basis for its logic that financial assets and liabilities have similar attributes and should be translated at the same exchange rate is the

- a. current-noncurrent method.

b. monetary-nonmonetary method.

 c. temporal method.

 d. current rate method.

20. The translation methodology which assumes that the **only assets** that should be translated at the historical rate are those carried at past exchange prices is the

 a. current-noncurrent method.

 b. monetary-nonmonetary method.

 c. temporal method.

 d. current rate method.

21. According to the temporal method of translating foreign currency financial statements,

 a. current assets and liabilities are translated at current exchange rates, and other assets, liabilities and owner's equity are translated at historical exchange rates.

 b. only those assets carried at past exchange prices should be translated at the historical rate.

 c. only owner's equity is translated at historical exchange rates.

 d. the entire income statement should be at the current rate

Learning Objective #10.4: Present the translation methodologies recommended by the International Accounting Standards Committee (IASB) and the Financial Accounting Standards Board

22. According to IAS 21,

 a. a forward contract may be used to set the value of a nonmonetary asset whose purchase was hedged by the forward contract.

 b. a forward contract can hedge the value of a commitment but not a transaction.

 c. the current rate method may be used but not the temporal method.

 d. long-term monetary items may be translated at the historical rate.

 e. Two of the above.

23. The **functional currency** is

- a. the U.S. dollar.
- b. any currency other than the parent currency.
- c. the currency of the primary economic environment in which the firm operates.
- d. the currency in the country where the foreign firm is operating as long as it is also the reporting currency.

24. The translation methodology that translates only owner's equity at historical exchange rates is the

- a. current-noncurrent method.
- b. monetary-nonmonetary method.
- c. temporal method.
- d. current rate method.

25. According to the current-rate method of translating foreign currency financial statements,

- a. current assets and liabilities are translated at current exchange rates, and other assets, liabilities and owner's equity are translated at historical exchange rates.
- b. only those assets carried at past exchange prices should be translated at the historical rate.
- c. only owner's equity is translated at historical exchange rates.
- d. translation losses are taken to income, but translation gains are deferred.

26. According to the current-rate method of translating financial statements,

- a. all balance sheet accounts except capital stock are translated at the historical exchange rate.
- b. every income-statement account is multiplied by the average exchange rate.
- c. translation gains or losses are taken to the income statement.
- d. all balance sheet accounts are translated at the current exchange rate.

27. If a parent company has a subsidiary in a country where the cumulative rate of inflation for the past three years is around 100 percent, which translation methodology would they use according to the IASC?

- a. the temporal method.

- b. the temporal method after adjusting for inflation.
- c. the current rate method.
- d. the current rate method after adjusting for inflation.

28. Which foreign currency translation standard uses the following objective: "for the purpose of preparing an enterprise's financial statements, the objective of translation is to measure and express (a) in dollars and (b) in conformity with U.S. generally accepted accounting principles (GAAP) the assets, liabilities, revenues, or expenses that are measured or denominated in foreign currency."

- a. Accounting Research Study #12
- b. FASB Statement 8
- c. FASB Statement 52
- d. International Accounting Standard 14.

29. According to FASB Statement No. 8,

- a. translation losses had to be recognized, whereas gains were deferred.
- b. both the temporal and current rate methods were permitted.
- c. long-term debt had to be carried at current rates, but the non-monetary assets purchased with the debt were carried at historical rates.
- d. cost of goods sold was translated at the average exchange rate for the period.

30. Which foreign currency translation standard uses the following objective: "1. Provide information that is generally compatible with the expected economic effects of a rate change on an enterprise's cash flows and equity. 2. Reflect in consolidated statements the financial results and relationships of the individual consolidated entities as measured in their functional currencies in conformity with generally accepted accounting principles."

- a. Accounting Research Study #12
- b. FASB Statement 8
- c. FASB Statement 52
- d. International Accounting Standard 14.

31. According to FASB Statement No. 52, (52 都爱)

- a. translation losses had to be recognized, whereas gains were deferred.
- b. both the temporal and current rate methods were permitted.
- c. the choice of translation methodology is independent of the choice of functional currency.
- d. the temporal method is the only translation method allowed.

32. If a parent company has a subsidiary in a country where **the cumulative rate of inflation** for the past three years is around 100 percent, which translation methodology would they use under **FASB Statement No. 52?** (爱是临时的。。。)

- a. the temporal method.
- b. the temporal method after adjusting for inflation.
- c. the current rate method.
- d. the current rate method after adjusting for inflation.

Learning Objective #10.5: Illustrate how companies account for foreign exchange

33. The **temporal method** of translating financial statements is used when

- a. the local currency is the functional currency.
- b. the local currency is the reporting currency.
- c. the parent's reporting currency is the functional currency.
- d. the subsidiary's reporting currency is the functional currency.

34. The **current-rate method** of translating financial statements is used when

- a. the local currency is the functional currency.
- b. the local currency is the foreign currency.
- c. the parent's reporting currency is the functional currency.
- d. you are translating current financial statements.

35. According to which method is the **translation gain or loss taken to the income statement?**

- a. the current rate method
- b. the consolidation method

- c. the temporal method
- d. the transcription method

36. According to the **temporal method of translation**,

- a. Transaction gains and losses are taken to income, but translation gains and losses are taken to the owners' equity section of the balance sheet.
- b. **Transaction and translation gains and losses are taken to the income statement.**
- c. Transaction and translation gains and losses are taken to the owners' equity section of the balance sheet.
- d. Transaction gains and losses are taken to the owners' equity section of the balance sheet, but translation gains and losses are taken to the income statement.

37. If the functional currency of a foreign subsidiary is the currency of the country where the subsidiary is located, the translation method that should be selected is the

- a. temporal method
- b. **current rate method**
- c. monetary/nonmonetary method
- d. the current rate method if the rate of inflation is the foreign country is 25% per month.

38. According to which method is the foreign currency **translation gain or loss** taken to stockholders' equity?

- a. **the current rate method**
- b. the consolidation method
- c. the temporal method
- d. the conversion method

39. According to the **current rate method** of translation,

- a. **Transaction gains and losses are taken to income, but translation gains and losses are taken to the owners' equity section of the balance sheet.**
- b. Transaction and translation gains and losses are taken to the income statement.
- c. Transaction and translation gains and losses are taken to the owners' equity section of the balance sheet.

d. Transaction gains and losses are taken to the owners' equity section of the balance sheet, but translation gains and losses are taken to the income statement.

40. In general, if a foreign firm translates its financial statements according to the **temporal method** during a period when the value of the foreign currency is rising against the reporting currency, the firm will recognize a

a. translation gain in the income statement.

b. translation loss in the income statement.

c. translation gain in the accumulated translation adjustment account in owners' equity.

d. translation loss in the accumulated translation adjustment account in owners' equity.

41. In general, if the Japanese subsidiary of a U.S. company firm translates its financial statements according to the **current rate method** during a period when the value of the Japanese yen is falling against the reporting currency (the U.S. dollar) , the subsidiary will recognize a

a. translation gain in the income statement.

b. translation loss in the income statement.

c. translation gain in the accumulated translation adjustment account in owners' equity.

d. translation loss in the accumulated translation adjustment account in owners' equity.

42. In general, if the Japanese subsidiary of a U.S. company firm translates its financial statements according to the **current rate method** during a period when the value of the Japanese yen is rising against the reporting currency (the U.S. dollar) , the subsidiary will recognize a

a. translation gain in the income statement.

b. translation loss in the income statement.

c. translation gain in the accumulated translation adjustment account in owners' equity.

d. translation loss in the accumulated translation adjustment account in owners' equity.

43. According to **FASB Statement No. 52**, which of the following does not have to be disclosed?

- a. The aggregate transaction gain or loss included in income.
- b. The beginning and ending amount of cumulative translation adjustments.
- c. The average exchange rate movement of countries whose operations are material to the parent company's results.
- d. The aggregate adjustment for the period resulting from translation adjustments.

44. Assume that U.S. parent company ABC has a subsidiary XYZ in Outer Mongolia. XYZ's total assets are as follows in Mongolian marks:

Cash and receivables 500,000

Inventory 500,000

Fixed assets (net) 900,000

The relevant exchange rates are:

OMM 1.6800 closing rate on the balance sheet date

OMM 1.5500 exchange rate when the fixed assets were acquired

OMM 1.6300 average exchange rate for the period

OMM 1.6600 average exchange rate when ending inventory was acquired.

What is the total value of assets if the functional currency is the Outer Mongolian mark?

a. \$1,130,952 (1900000/1.68)

b. \$1,179,469

c. \$1,175,883

d. \$1,185,012

45. Assume that U.S. parent company ABC has a subsidiary XYZ in Outer Mongolia. XYZ's total assets are as follows in Mongolian marks:

Cash and receivables	500,000
Inventory	500,000
Fixed assets (net)	900,000

The relevant exchange rates are:

- OMM 1.6800 closing rate on the balance sheet date
- OMM 1.5500 exchange rate when the fixed assets were acquired
- OMM 1.6300 average exchange rate for the period
- OMM 1.6600 average exchange rate when ending inventory was acquired.

What is the total value of assets if the functional currency is the U.S. dollar?

- a. \$1,130,952
- b. \$1,179,469
- c. \$1,175,883
- d. \$1,185,012

Chapter 12

Learning Objective #12.1: Describe different strategies MNEs can pursue

1. A **multidomestic** strategy

- a. allows each subsidiary abroad to operate relatively independently of other subsidiaries.
- b. occurs when an MNE pits itself against competitors on a global basis.
- c. results in highly centralized decision-making.
- d. does not allow products to vary from one market to another.

2. A global strategy

- a. involves the development of global markets, market by market.
- b. involves the integration of activities worldwide.

- c. is not able to capitalize on firm-specific advantages as easily as does the multidomestic strategy.
- d. generally results in each subsidiary establishing its own accounting system but sending the information back to the home office for global consolidation.

3. Structural and formal mechanisms include

- a. task forces and meetings that cut across organizational lines.
- b. networking and personal contacts.
- c. the socialization of individuals in the organization.
- d. organizational structure.

4. A **decentralized, independent strategy** is symbolic of a

- a. multidomestic strategy.
- b. global strategy.
- c. transnational strategy.
- d. geocentric strategy.

5. A **centralized, globally scaled strategy** is symbolic of a

- a. multidomestic strategy.
- b. global strategy.
- c. transnational strategy.
- d. geocentric strategy.

6. A strategy where corporate assets are dispersed, interdependent and specialized is symbolic of a

- a. multidomestic strategy.
- b. global strategy.
- c. transnational strategy.
- d. geocentric strategy.

Learning Objective #12.2: Provide a brief explanation of different structures an MNE adopts as it modifies its strategy in response to increased globalization

7. As firms become more global, they tend to rely more on
- a. organizational structure to control operations.
 - b. the decentralization of decision making in order to control foreign operations.
 - c. informal accounting procedures.
 - d. lateral relations and informal communication.
8. The process of socialization that **crosses national lines** is an example of
- a. structural mechanisms.
 - b. informal mechanisms.?
 - c. organizational structure.
 - d. formalization of policies.
9. A geographic organizational structure works best when
- a. there are narrow, relatively simple product lines.?
 - b. when product lines are rapidly changing.
 - c. product expertise is more important than country expertise.
 - d. the company needs economies of scale.
10. Which of the following is **not consistent with** establishing a product line focus in the MNEs organizational structure?
- a. The product line is wide.
 - b. Products are subject to rapid technological change.
 - c. Production and logistics need to be coordinated.
 - d. Country and regional expertise is of prime importance.
11. As a domestic firm evolves into an MNE,
- a. reporting and communication flows change.
 - b. the organizational structure becomes more simplified.
 - c. it changes from a product emphasis to an international division structure.
 - d. the existing organizational structure cannot be changed because of the ensuing confusion.

12 All of the following issues distinguish MNEs from purely domestic companies except

- a. volume of transactions between countries ✓
- b. cross-frontier relationships ✓
- c. participation in different markets with different laws and currencies ✓
- d. private stockholder ownership

Learning Objective #12.3: Understand the need for effective corporate governance and provide a model for understanding the various cultural, legal and market factors that determine the cross-national diversity of governance structures

13. Shareholders

- a. directly control MNE operations
- b. vote to hire and fire management
- c. receive dividends and management appoints the board of directors
- d. vote for board of directors who hire and fire management

14. Internal governance mechanisms include

I..ownership structure

II..legal system

- a. only I
- b. only II
- c. either I or II
- d. neither I or II

15. The Scoreboard for German Corporate Governance

- a. is used only in Germany
- b. rates the quality of governance
- c. reflects a civil law approach
- d. is based on 1 to 5 quality ratings

16. Outside the United States, concentrated ownership

- a. is positively associated with performance
- b. is negatively associated with performance
- c. has no association with performance
- d. only occurs with state ownership

17. The external takeover market is an effective control mechanism

- I..in the US
 - II..in the UK
 - III. throughout the world
- a. only for I
 - b. only for II
 - c. either I or II
 - d. III is the best answer

Learning Objective #12.4: Gain an understanding of the challenges faced by MNEs in maintaining effective internal controls

18. Most board of directors have

- a. ten members
- b. an audit committee
- c. a majority of management representation
- d. union representatives

19. The COSO monitoring component

- a. assesses the quality of the system's performance over time
- b. assures that no fraud will occur
- c. sets the tone of the organization
- d. is required by FASB

20. The Sarbanes-Oxley Act of 2002

- a. is not required for foreign firms registered on US exchanges.
- b. prohibits real time financial statements on the Internet.
- c. is also required for IFRS

d. requires annual internal control report that is assessed by an independent auditor.

21. Sarbanes-Oxley Act of 2002

- a. has costs in excess of benefits
- b. does not apply to foreign subsidiaries
- c. will have the IT function as an important part of compliance
- d. requires management to eliminate financial misstatements

22. COSO characteristics of internal control include

- I..effectiveness and efficiency of operations
- II..reliability of financial reporting

- a. only for I
- b. only for II
- c. neither I or II
- d. both I and II

Learning Objective #12.5: Learn about the transfer of information of MNEs and strategic role played by information technology

23. For IT, economies of scale result in

- a. worldwide innovation.
- b. local differentiation.
- c. global integration.有了网络，衔接起全世界
- d. lateral relations.

24. The movement of business data electronically between or within firms in a structured, computer-processable data format is known as

- a. decentralization.
- b. globalization.
- c. Electronic Data Interchange.
- d. routine transfers.

25. The knowledge-flows framework for an integrated player results in
- a. reciprocal flows.
 - b. sequential flows from the subsidiary to the parent but not vice-versa.
 - c. routine but not non-routine flows.
 - d. lateral relations.
26. If a subsidiary in a global company is considered to be an integrated player,
- a. it tends to receive but not share knowledge.
 - b. its information flows would be reciprocal.
 - c. it is probably organized around geographic lines of business.
 - d. it would be multidomestic rather than transnational.
27. For global innovators,
- a. information flows are reciprocal rather than sequential.
 - b. information flows are sequential from the parent company to the global innovator.
 - c. information flows are sequential from the global innovator to the parent company.
 - d. information flows are relatively infrequent and unimportant.
28. Which of the following reflects information flows of a global innovator?
- a. High outflow of knowledge from the local subsidiary to the rest of the corporation and high inflow of knowledge from the rest of the corporation to the local subsidiary.
 - b. High outflows and low inflows.
 - c. Low outflows and high inflows.
 - d. High outflows and high inflows.
- Learning Objective #12.6: Understand how firm strategy and structure affect the accounting function**
29. Organizational structure is part of
- a. informal control mechanisms.

b. structural mechanisms.

c. organizational culture.

d. lateral relations.

30. **Organizational culture is** part of the

a. structural mechanisms of control.

b. informal control mechanisms.

c. centralization vs. decentralization dilemma.

d. organizational structure dimension.

31. The need to achieve economies of scale is an example of the forces for

a. worldwide innovation

b. local differentiation.

c. global integration.

d. lateral relations.

32. Responsiveness to local conditions results in

a. global integration.

b. differentiation.

c. worldwide innovation.

d. a common corporate culture.

33. To be globally competitive, MNEs need an information system that provides a

significant flow of information

I..from parent to affiliate

II..from affiliate to parent

III. between affiliates

a. only I

b. only II

c. either I or II

d. I, II and III

Chapter 12 Answer Key

True False

1. True
2. False
3. True
4. False
5. True
6. False
7. False
8. True
9. True
10. True

Multiple Choice

1. a.
2. b
3. d.
4. a.
5. b.
6. c
7. d.
8. b
9. a.
10. d.
11. a.
12. d.
13. d.
14. a.
15. b.
16. a.

17. c.
18. b.
19. a.
20. d.
21. c.
22. d
23. c.
24. c.
25. a
26. b.
27. c.
28. b.
29. b.
30. b.
31. c.
32. b.
33. d.

Chapter 15

Learning Objective #15.1: Discuss important factors influencing the quality of the accounting and auditing profession

1. Which of the following is not a key dimension to auditing?
 a. a competent, independent person.
 b. quantifiable and verifiable information.
 c. established criteria (auditing standards).
 d. the existence of a global auditing standards board that will harmonize auditing practices.
2. Which of the following is not an element of the quality of the auditing profession.
 a. reputation of the profession.
 b. the quality of the educational system.
 c. the certification process.

- d. the organization of the auditing firms.
3. The **identity of a candidate** for the auditing profession is important. For example,
- a. Mexico has a strict requirement that one must be a Mexican citizen or be fluent in Spanish in order to practice in Mexico.
 - b. the U.K. requires that candidates be a member of one of the Chartered Institutes or the Chartered Association of Certified Accountants.
 - c. France does not allow candidates from other EU member countries to practice in France.
 - d. the Dutch are short on good accountants, so their requirements are not too strict.
4. In terms of the **size of the profession**,
- a. the Anglo-Saxon tradition generates the most accountants, but not the most per capita.
 - b. the United States is the largest in the world in number of accountants and accountants per capita.
 - c. the British do not have the most accountants in the world, but they have the most per capita.
 - d. Japan is more similar to the Anglo-Saxon countries than Germany in terms of the number of accountants per capita.
5. The quality of the **auditing profession** in each country is a function of
- a. the reputation of the accounting and auditing profession
 - b. the quality of the educational system
 - c. the certification process
 - d. all of the above
- Learning Objective #15.2: Discuss the nature of global audit services and examine the challenges of auditing across borders**
6. **Reciprocity** in the accounting profession means that
- a. practitioners certified in one country should be allowed to practice in another country.

- b. the U.S. will grant reciprocity to accountants from Anglo-Saxon traditions, but not from other countries.
- c. accountants are allowed to practice but not certify outside of their countries.
- d. audit reports should be accepted in different countries.

7. According to the **reciprocity agreement** between the United States and Canada,
- a. Canadian chartered accountants must pass the Uniform CPA exam in order to practice in the United States.
 - b. Canadians and Americans who are certified in their own country can practice in the other country by registering with the proper accounting board and paying a one-time fee.
 - c. any accountant, even one who is not certified in either the United States or Canada, can practice in the other country by passing a special exam.
 - d. a special exam has been developed which focuses on the differences between Canada and the United States.

8. In terms of **educational experience** to become a certified accountant,
- a. the French rely on the apprenticeship approach.
 - b. the United States use university training as a prerequisite for certification.
 - c. the Dutch do not rely very much on university training of accountants.
 - d. the British have a dual approach that uses different styles of universities to train accountants.

9. **The U.S. model of accounting education** is like which of the following models?
- a. Integrated system: the test of professional competence is preceded by an integrated education and practical experience approach.
 - b. Linear system: the test of professional competence is preceded by practical experience, which is preceded by university training.
 - c. Parallel system: the test of professional competence is preceded by either practical experience which follows university education or an integrated education and practical experience.
 - d. All of the above.

10. The **British model** of accounting education is like which of the following models?

- a. Integrated system: the test of professional competence is preceded by an integrated education and practical experience approach.
- b. Linear system: the test of professional competence is preceded by practical experience, which is preceded by university training.
- c. Parallel system: the test of professional competence is preceded by either practical experience which follows university education or an integrated education and practical experience.
- d. All of the above.

11. The **German model** of accounting education is like which of the following models?

- a. Integrated system: the test of professional competence is preceded by an integrated education and practical experience approach.
- b. Linear system: the test of professional competence is preceded by practical experience, which is preceded by university training.
- c. Parallel system: the test of professional competence is preceded by either practical experience which follows university education or an integrated education and practical experience.
- d. All of the above.

12. The **French model** of accounting education is like which of the following models?

- a. Integrated system: the test of professional competence is preceded by an integrated education and practical experience approach.
- b. Linear system: the test of professional competence is preceded by practical experience, which is preceded by university training.
- c. Parallel system: the test of professional competence is preceded by either practical experience which follows university education or an integrated education and practical experience.
- d. All of the above.

Learning Objective #15.3: Describe the structure of the audit industry and the strategies of the global public accounting firms in servicing clients worldwide

13. A major development in the global accounting firms in recent years has been the

- __a. decision on the part of the largest firms to concentrate in specific geographic areas rather than attempt to service all markets.
- __b. merger of some of the largest accounting firms.
- __c. slowdown in merger activity.
- __d. all of the above.

14. Which of the following is not a major reason for the global expansion of public accounting firms?

- __a. to service clients better.
- __b. to provide a line of defense against global competitors.
- __c. to increase the client base outside of the home market.
- __d. to focus on the industrial instead of developing countries where the accounting tradition is already well-established.

15. Which of the following is not a problem that public accounting firms face when they do business overseas.

- __a. restrictions on the use of the firm's name.
- __b. restrictions on the scope of practice.
- __c. tax discrimination.
- __d. understanding the different audit statement formats.

16. Companies that switch from small or medium audit firms to more international auditors often give the reason of

- __a. the need to have one firm auditing all companies within one group
- __b. better brand recognition
- __c. superior low balling
- __d. side payments

17. Sarbanes-Oxley prohibits all of the following services to audit clients except

- __a. tax
- __b. bookkeeping

- c. financial information systems design
- d. internal audit outsourcing

Learning Objective #15.4: Provide a comparative international analysis of audit standards

18. With respect to accounting services, the General Agreement on Trade in Services (**GATS**)

- a. was enacted in the Uruguay Round of GATT negotiations, and it resulted in the free trade in accounting services.
- b. efforts are being concentrated on tariff barriers to the cross-border trade in services.
- c. governments are all required to use the same reciprocity rules.
- d. wants to ensure that quality of service is not compromised.

19. Which of the following is true concerning the EU's 4th Directive?

- a. it is a source of audit requirements, standards and practices.
- b. it is a source of audit standards and practices but not audit requirements.
- c. it is a source of audit requirements but not standards and practices.
- d. it describes the format and content of the audit report.

20. With respect to auditors in the **European Union**,

- a. the 4th Directive states that accountants need to demonstrate education, examination and experience qualifications in order to be able to practice.
- b. auditors in one country may be allowed to practice in another country under certain conditions.
- c. reciprocity is not extended.
- d. auditors are not allowed to engage in consulting due to concerns over independence.

21. **Auditors** are generally appointed by

- a. shareholders at the annual meeting
- b. local country government

c. management

d. UN

22. Which country **exempts small companies from an audit**

a. Germany

b. United Kingdom

c. United States

d. Canada

Learning Objective #15.5: Explain the role of the International Federation of Accountants (IFAC) in harmonizing auditing standards worldwide

23. The **IFAC** is

a. an organization of national professional accountancy organizations

b. part of the OECD

c. under control of FASB

d. part of the UN

24. The IFAC has

a. set for international development policy

b. issued international standards on auditing

c. issued numerous security regulations

d. none of the above

25. The IFAC is active in all of the following areas except

a. education

b. ethics

c. metric standards

d. information technology

26. International auditing standards

a. make it more difficult for developing countries to produce domestic auditing standards

- b. are principally generated by FASB
- c. are created and reviewed by G11 summits
- d. provide incentives to improve and extend the set of international accounting standards

27. Evidence of IFAC global effectiveness problems in enforcing audit standards is

- a. a restructuring plan
- b. the take-over of the duties by the OECD
- c. the take-over of the duties by court at the Hague
- d. SEC rejection of IAS standards

28. IFAC's 2000 initiative is

- a. supposed to raise audit fees
- b. designed to raise global audit standards
- c. ease the tax collection problems on MNEs
- d. likely to increase Internet E-commerce

29. The IFAD was formed

- a. in order to improve Internet E-commerce
- b. so as to reduce the dependence on the SEC
- c. after the late 90's Asian financial crisis
- d. to control dumping

30. The IFAD objectives include all of the following except

- a. Promote cooperation between governments, the accountancy, regulators, standard setters and capital providers
- b. Contribute to a common strategy and framework of reference for accountancy development
- c. Assist in defining expectations as to how the accountancy profession should carry out its responsibilities
- d. Develop near earth orbit commerce

Essay Questions Based on Discussion Questions

- 1.What are the benefits and problems with auditor reciprocity between countries?
- 2.What are the major audit risks of a typical manufacturing MNE as contrasted with a firm the operates entirely domestically?

Chapter 15 Answer Key

True False

- 1.False
- 2.True
- 3.True
- 4.True
- 5.False
- 6.True
- 7.True
- 8.False
- 9.False
- 10.True

Multiple Choice

1. d.
2. d.
3. b.
4. c.
5. d.
6. a.
7. d.
8. b.
9. b.
10. a.

11. b.

12. c.

13. b.

14. d.

15. d.

16. a.

17. a

18. d.

19. c.

20. b.

21. a.

22. a.

23. a.

24. b.

25. c.

26. d.

27. a.

28. b.

29. c.

30. d.