

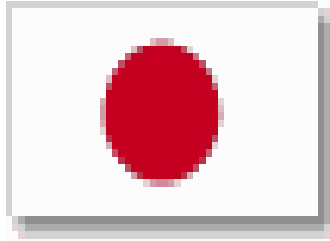
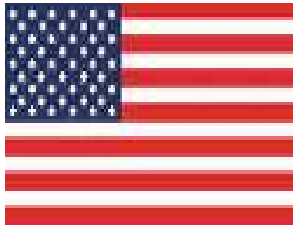
I. Discuss about the International accounting practice between countries. Provide relevant justification for:

- 1. The reasons “WHY” those “ Two Countries” practice consistent account system use examples to illustrate*
- 2. Indicate the critical differences in practice across “countries” and provide valuable argument to substantiate their differences.*

Answer 1:

The international convergence of financial accounting standards and practices has emerged as an important issue as companies have become involved in cross-border activities in product and capital markets. Global financial transactions have increased with more companies raising equity outside their home county. Corporations have expanded through investment in foreign subsidiaries and by sales and production activity in foreign markets. Growth in international business activity has highlighted diversity in financial reporting practices. Each country has a reporting framework that reflects its political, legal, cultural and business environment, which may differ from that of other countries and result in the production of financial information that lacks international comparability. It has been argued that greater comparability in information will enable resources to be allocated more efficiently and better investment decisions to be made. Companies may benefit from reduced accounting costs and a cheaper cost of capital, subsequently; International accounting provides economic information about various types of enterprise that is useful for making decisions about resource allocations. Accounting exists because it satisfies a need—in particular, a need for information. And in order to be relevant to the resource providers, accounting information must be responsive to their needs. United States is developed country, and China is developing country, those two countries

have different rules and regulations to practice their accounting systems, however; the accounting system between those two countries are practiced consistently.¹



Accounting standards are the rules by which financial statements are prepared, for example the Generally Accepted

Accounting Principles (GAAP) that specify the form and content of financial statements. Auditing standards are the rules that govern how the auditor conducts his/her investigation about how well the financial statements conform to GAAP. Accounting and auditing standards are interrelated. Accounting standards define as, the "useful" financial information, auditing standards guide an auditor in determining whether it is "reliable," and with both useful and reliable information, users are in a position to make better decisions. In the United States, Companies today are global players, compete against each other for the same pool of capital and face the same business pressures. Most multinationals, US-based and otherwise, must set performance objectives, observe each other's activities, and implement similar practices to ensure that their competitor does not have a competitive advantage. And in many areas outside the United States, the accounting literature remains incomplete or insufficient to address the complexities of the modern market.

Furthermore, Companies listed in the US are more likely to choose US GAAP but companies traded in the OTC market show considerable support for IASs, showing the impact of SEC US GAAP requirements on non-US companies' choice of

¹ "International Finance Accounting" by Helen Gernon and Gary K. Meek. 5th edition

“international” standards. In the United States, the private sector is also the primary source for accounting standards, but with input and influence from the SEC; standard setting is a particularly lengthy process and, in addition to basic pronouncements, there is much detailed guidance. While Japan is a third country that draws heavily on legal and tax directives, so much so that the private sector has little direct involvement in setting accounting standards; in many ways, Japan's legal and tax systems follow those in Continental Europe.

Increasing international investment activities require financial statements of foreign companies, in order to be more reliable and comparable and the need to reduce the degree of environmental variability; and accounting is shaped by the environmental factors in which it operates. Just as nations have different histories, values, and political systems, they also have different patterns of financial accounting development. For example, accounting that is studied by students in the United States is not the same accounting that students in other countries study. Indeed, diversity is what we see. Japan and the United States, however, have some similarities.

Environmental Variables²

<i>Variable</i>	<i>United States</i>	<i>Japan</i>
Business and Providers of Capital	Investors	Banks
Political and Economic Ties with other Countries	Influenced by U.K.	Influenced by Germany; later, U.S. after WWII
Legal System	Common Law	Code Law

² International Finance Accounting” by Helen Gernon and Gary K. Meek. 5th edition page 9.

Levels of Inflation	Low	Low
Size and Complexity of Business Enterprises	Large and Complex	Large and Complex
Sophistication of Management and the Financial Community	High	High
General Levels of Education	High	High

From the table above, it shows there are many similarities between United States and Japan. Such as political and economic ties in both two countries are high, inflation complexity and sophistication/education are high, and size of complexity are larger as well in these two countries. The difference between the two countries only the legal system, US is common law, however, Japan is Code law. And business, for example, most code law countries have historically relied on either banks or the government to supply capital to businesses, whereas common law countries have historically relied on their more developed stock and bond markets to satisfy business' capital needs. Code law countries also trend to be uncertainty avoidant, whereas common law countries are much less so. If we accept the idea that its environment influences accounting, then it is logical to expect accounting similarities among countries with similar business environments.

There are many similarities between United States and Japan, as a result of globalization, the accounting profession has become increasingly aware of the need to establish a single set of accounting standards that would be valid in the international

arena. Recent events highlight the timeliness of this study, which provides an empirical measurement of International Accounting Standards Committee (IASC) progress throughout its harmonization history. The purpose of this is set a new measure of the advances achieved through formal harmonization and second, to use this methodology to evaluate the IASC achievements all through its standard-setting activity. Our results prove that the IASC has made great progress in regard to the level of harmony achieved through the accounting standards it has issued or revised. Nevertheless, we conclude that the IASC needs to continue working towards greater formal harmonization. Our study also indicates research directions that could advance the study of formal harmonization.

Part two:

From the first part we know that, United States and Japan have many common factors of practice consistent account systems. However, it still has some difference between these two nations. Japanese accounting standards in conformance with International Accounting Standards (IASs) but several differences still remain. For example, including the following three significant areas where Japanese accounting standards differ from both IASs and US GAAP:

(1) The IASs and US GAAP require recognition of a loss for impairment in value of long-lived assets such as land, buildings, machinery, and goodwill arising from acquisitions. Indicators of impairment include a significant decrease in the market value of an asset or a significant adverse change in legal factors or the business climate that would affect the asset value. A company records an impairment loss when the asset's book value exceeds estimated future cash flows from the asset.

According to the Accounting Goodwill in Selected Countries³, it shows that the maximum period of amortization of goodwill in Japan is 5 years and tax deductible. But for the United States, the maximum period of amortization is 40 years and no tax deductible.

(2) Japan's accounting standards allow inventories to be measured at acquisition cost or the lower of cost or market at the company's option. If a Japanese company uses the cost method for inventory valuation, hidden losses may result if the market value drops significantly. Although the accounting rules require a write-down in inventory value if the decline in value is not temporary, company management may judge the decline to be temporary in order to avoid reporting losses. In contrast, the IASs and the United States GAAP require the lower-of-cost-or-market method to value inventories.

(3) Japan also does not have a specific accounting standard that addresses changes in company accounting policies such as a change in inventory costing method or fixed asset depreciation method. And Japan is very sensitive to avoidance uncertainty. United States is the country, which is weak in uncertainty avoidance.

Besides that, for a Japanese MNC, a yen total of "cash and cash equivalents" does not represent the amount of yen readily available for transactions in Japan. Portions of the total reflect cash and cash equivalents in other currency denominations, which are unavailable in yen without exchange conversion. And another significant difference is American's source of capital from investors and creditors, developed stock and bond market, so the users expect sophisticated Financial Accounting

³ International Finance Accounting” by Helen Gernon and Gary K. Meek. 5th edition page 27.

information. However, banks become source of capital in Japan, and it is legalistic orientation. So government imposed requirement on taxes and economic plan.

From the “ Environmental Variables in Six Nations”⁴, it shows that accounting system is also influence by culture and the values that a society shares. Knowing something about a people’s values can help us understand their accounting system. Values are defined as a tendency to prefer certain states of affairs over another. For instance, people in the United States value the concept of individualism, whereas in Japan it is not the individual who is important but how the individual among individuals, and group norms are far more important than single individual’s opinion or professional judgment.

One should not say that the accounting in one country is of better quality than the accounting in another country. Accounting exists because it fulfills a need, and as long as accounting satisfied the needs of its user groups, it is doing what is supposed to do. Accounting develops in and is natured by its environment. That the world is a potpourri of accounting practices reflects the diversity of uses to which it is put. At the same time, some of this diversity is fading. There is pressure for harmonizing accounting around the world


⁴ International Finance Accounting” by by Helen Gernon and Gary K. Meek. 5th edition page 9.

II. Critically write a report to the CFO of Microsoft, how the company should consider a proposed take-over of entity in Singapore and another in Japan. Provide details discuss the aim to satisfy the following aim:

- *Ensure that the company could be able to evaluate the entity comparable and consistently.*
- *Avoiding potential fitfully by such comparison (why company makes mistakes).*

Since our company (Microsoft) has the strong in the internal and external factor positions, Microsoft needs to extend markets in developed countries in Asia, like Singapore and Japan. We can takeover one of the companies in these two countries then try to monopoly the market in Singapore and Japan as well.

First of all, **takeover Fujitsu's in Japan:**

 Fujitsu is a leading provider of customer-focused information technology and communications solutions for the global marketplace. Pace-setting technologies, highly reliable computing and telecommunications platforms, and a worldwide corps of systems and services experts uniquely position Fujitsu to deliver comprehensive solutions that open up infinite possibilities for its customers' success. Fujitsu is committed to impeccable corporate citizenship and is dedicated to making its solutions accessible in meeting the evolving needs of customers in an increasingly connected and convergent society. Headquartered in Tokyo, Fujitsu Limited⁵ reported consolidated revenues of 4.6 trillion yen (US\$38 billion) for the fiscal year ended March 31, 2003.

⁵ "Fujitu-about of us" http://www.fujitsu.com/about/about_index.html

Takeover Fujitsu will shows how strong of our company and it will create a good opportunity for us to control the market in Japan.

Although several conditions are expected to persist for some time in the IT industry, there are undoubtedly strong prospects for growth in the medium term and beyond. There remains considerable room for greater utilization of IT in corporate business operations and, in light of today's rapid rate of technological development; we can expect significant expansion in the use of IT in many new fields. Proposing new ways to use IT will help spur new areas of demand. We at the Fujitsu Group are committed, now and in the future, to providing total solutions comprised of high-quality products and services based on the most advanced and dependable high-performance technology, and thereby helping to realize the network society of tomorrow. As an IT industry leader, we will also work to open up new markets by striving to see things from our customers' perspectives and helping them to benefit from utilizing the latest advances in IT.⁶



Hardware Company in Singapore:

Creative Technology is the worldwide leader in digital entertainment products for the personal computer and the Internet. Creative was founded in Singapore in July 1, 1981, with the vision that multimedia would revolutionize the way people interact with their PCs. Famous for its Sound Blaster and for launching the multimedia revolution; Creative is now driving digital entertainment on the PC platform with

⁶ "Investors relation" <http://pr.fujitsu.com/en/ir/finance/2001/0425-3.html>

products like its highly acclaimed NOMAD Jukebox.⁷ The company's innovative hardware, proprietary technology, applications and services leverage the Internet, enabling consumers to experience high-quality digital entertainment -- anytime, anywhere.

Over time, Creative has built upon the popularity and demand of its PC audio success to include graphics, DVD, computer telephony integration (CTI), communications, and videoconferencing. In doing so, Creative has partnered some of the industry's top technology companies and developers worldwide. Today, Creative expands the power of the personal computer with Personal Digital Entertainment (PDE) Internet solutions, comprising desktop products, Internet appliances and Internet applications and services.⁸

Take over these two companies will benefit Microsoft in the Long run. However, we need to make sure that the companies could be able to evaluate the entity comparable and consistently. There are few ways to do it:

First of all, the two new companies prepare the financial statement and internal management reports to us. So from these reports we can analysis whether the company running is solvent or incurring losses. And we also need to work with them, at the same time, to create a seamless relationship to make sure the business run smoothly, and do the effective things, at the same time we need to do to increase your profits and reduce the taxes.

⁷ "Product catalog" <http://www.creaf.com/products/allproducts.asp>

⁸ "Creative online privacy policy" <http://www.creaf.com/legal/privacy.asp?fi=>

Secondly, we need to employ employee expertise and help them record and interpret financial data to make better business decisions. Why we need to do that? This is because we can create a better internal strengths make sure the companies are able to evaluate the entity comparable and consistently.

The cultural values include individualism, equality, and dealing with uncertainty. The accounting profession carries out the function of providing useful information in societies that allow the use of judgment in decision-making. These countries and their societies value individualism and equality and are comfortable with uncertainty. These values allow the professional accountant to use her/his judgment as opposed to relying on codified rules to solve difficult and unusual problems and to assess when information is useful. In societies that value group norms. Another way to say this is that there is less tolerance of professional judgment, accounting rules is prescribed and professional judgment is discouraged, what is useful is determined by law.

The accounting values of statutory control and uniformity influence the development of national accounting systems. Embracing these values results in the individual professional having less influence on what information is provided. This is because law prescribes what is provided to the user. Statutory control and uniformity are accounting values of both the Continental and South American models.

Even though we can manage the of factors of these two companies, but we still need to avoid potential fitfully by such comparison for our company:

Timeliness

In the United States, corporate annual reports are published in a timely fashion, which add relevance to the information’s usefulness. In fact, this is more or less taken for granted. Companies must file their financial statement with the Securities and Exchange Commission within 90 days after their year-end. However, American is less than 60 days. Beside that, the fact that the US market is in a very different time horizon from its Pacific-Rim counterparts creates⁹ complications when assessing the correlation relationships between the two markets. For example, from the Pacific-Rim time comparison, it shows, when New York is 11pm 14th of November, Singapore will be 12pm 16th of November, and Tokyo will be 1pm 16th of November.

Pacific-Rim Time Comparison

Time/Date	11pm (2300 hours) 15 th Nov 98	11am (1100 hours) 16 th Nov 98	12pm (1200 hours) 16 th Nov 98	1pm (1300 hours) 16 th Nov 98
Country/Cities	New York	Bangkok	Hong Kong Kuala Lumpur Singapore	Tokyo Seoul

This structure also applies to the Pacific-Rim markets that are influenced by the developments in the Japanese market.

Language,

It is a serious issue for language, because, Japanese normally not good at English so it will create a communicating gap between Fujitu and us. For English-speaking users, a barrier to usefulness exists, if the report is not in English or totally in Japanese. So we

⁹ “Pacific-Rim counterparts” www.arborfood.com/reviews/pacific-rim.shtml

need to avoid the language problem. Singapore is no barrier for English so this will be not a problem for Creative Company.

Terminology

Differences in accounting terminology also present a communication problem. Sometimes, terminology will easy for us to misunderstand with the accounting terms with Japan and Singapore. Beside that, the accounting rule and regulation is also different with each other.

Finally, environmental boundaries and cost involved are also quite difference. For example, if we invest in Japan we need get the capital from the bank, Singapore's accounting system is similar like our country. However, we need to follow the code law in Japan and prepare the account that the banks required. So base on those complexities concepts of our company we need to avoid those problems, at the same time we need to adapt the differences and problems in order to make better decision-making. If our company (Microsoft) can easily to adapt those complexities between the nations, we believe and have a high confidence that Fujitsu and Creative companies that we going to take over will be making a high profit.

Reference:

Book:

“International Finance Accounting” by Helen Gernon and Gary K. Meek.
5th edition

Internet:

“Fujitsu-about of us” http://www.fujitsu.com/about/about_index.html

“Investors relation” <http://pr.fujitsu.com/en/ir/finance/2001/0425-3.html>

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“Pacific-Rim counterparts” www.arborfood.com/reviews/pacific-rim.shtml

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