

International Accounting, 5e (Doupnik)

Chapter 1 Introduction to International Accounting

1) Which of the following groups is a supranational organization?

- A) International Accounting Standards Board
- B) Organization for Economic Cooperation and Development
- C) International Federation of Accountants
- D) All of the above

Answer: D

Difficulty: 1 Easy

Topic: Global Accounting Standards

Learning Objective: 01-01 Discuss the nature and scope of international accounting.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

2) Determination of net present value involves:

- A) forecasting future profits and cash flows.
- B) discounting future cash flows back to their present value.
- C) analysis on an after-tax basis.
- D) All of the above

Answer: D

Difficulty: 2 Medium

Topic: Foreign Direct Investment

Learning Objective: 01-01 Discuss the nature and scope of international accounting.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

3) In which of the following levels can international accounting be defined?

- A) Supranational organizations
- B) Company
- C) Country
- D) All of the above

Answer: D

Difficulty: 1 Easy

Topic: Global Accounting Standards

Learning Objective: 01-01 Discuss the nature and scope of international accounting.

Bloom's: Remember

AACSB: Knowledge Application

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4) Which of the following functional areas is included in the study of international accounting?

- A) Financial accounting
- B) Managerial
- C) Taxation
- D) All of the above

Answer: D

Difficulty: 1 Easy

Topic: Global Accounting Standards

Learning Objective: 01-01 Discuss the nature and scope of international accounting.

Bloom's: Remember

AACSB: Knowledge Application

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5) The factor used to convert from one country's currency to another country's currency is called the:

- A) interest rate.
- B) cost of capital.
- C) exchange rate.
- D) strike price.

Answer: C

Difficulty: 1 Easy

Topic: Financial Reporting for Foreign Operations

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Understand

AACSB: Reflective Thinking

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6) What is the term used to describe the possibility that a foreign currency will decrease in U.S. dollar value over the life of an asset such as Accounts Receivable?

- A) Foreign exchange translation
- B) Foreign exchange risk
- C) Hedging
- D) Foreign currency options

Answer: B

Difficulty: 2 Medium

Topic: Sales to Customers

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Understand

AACSB: Knowledge Application

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7) Foreign exchange risk arises when:

- A) business transactions are denominated in foreign currencies.
- B) sales are made to customers in a domestic country.
- C) goods or services purchased from suppliers in a foreign country are denominated in domestic currency.
- D) auditing reports are prepared in a foreign currency.

Answer: A

Difficulty: 2 Medium

Topic: Sales to Customers

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

8) In international accounting, a "hedge" is:

- A) a business transaction made to reduce the exposure of foreign exchange risk.
- B) the legal barriers in various divisions of a multinational company.
- C) the loss in US dollar resulting from a decline in the value of the US dollar relative to foreign currencies.
- D) a form of foreign direct investment.

Answer: A

Difficulty: 2 Medium

Topic: Sales to Customers

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

9) Purchasing an option to buy foreign currency at a predetermined exchange rate in order to reduce exchange risk is called:

- A) transfer pricing.
- B) hedging.
- C) translating.
- D) cross-listing.

Answer: B

Difficulty: 1 Easy

Topic: Hedges of Foreign Exchange Risk

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

10) What term is used to describe the process of reducing foreign exchange risk?

- A) International accounting
- B) Exposure
- C) Hedging
- D) Globalization

Answer: C

Difficulty: 1 Easy

Topic: Hedges of Foreign Exchange Risk

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

11) What is the advantage of foreign direct investment?

- A) Helps in retaining advantage over competition
- B) Reduces transportation costs
- C) Creates a company tailored to a foreign market's unique characteristics
- D) All of the above

Answer: D

Difficulty: 1 Easy

Topic: Foreign Direct Investment

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

12) How should we recognize the difference in the value of a receivable in a foreign currency at the time it was recorded and the time the cash was received?

- A) As an adjustment to stockholders' equity
- B) As an adjustment to purchases
- C) As an extraordinary capital expenditure
- D) As a prior period adjustment

Answer: A

Difficulty: 3 Hard

Topic: Sales to Customers

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

13) What currency is used in the United Kingdom?

- A) Crown
- B) Euro
- C) British pound
- D) UK dollar

Answer: C

Difficulty: 1 Easy

Topic: Sales to Customers

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

14) Which of these European countries does NOT use the Euro as its domestic currency?

- A) France
- B) United Kingdom
- C) Ireland
- D) The Netherlands

Answer: B

Difficulty: 2 Medium

Topic: Sales to Customers

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

15) Which of the following terms is used to describe the combining of the financial statements of all subsidiaries, both foreign and domestic, into the financial statements of the parent?

- A) Convergence
- B) Hedging
- C) Consolidation
- D) Incorporation

Answer: C

Difficulty: 1 Easy

Topic: Financial Reporting for Foreign Operations

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

16) Which of the following statements is true about U.S. taxation of foreign subsidiaries?

- A) The U.S. income taxes income generated by subsidiaries incorporated in foreign countries.
- B) U.S. multinationals do not pay tax on their worldwide income if incorporated in the U.S.
- C) Transfer pricing will eliminate taxes by the U.S. government on multinational corporations.
- D) U.S. tax on foreign operations does not have to be paid until the income is brought back to the U.S.

Answer: D

Difficulty: 1 Easy

Topic: International Income Taxation

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Analyze

AACSB: Reflective Thinking

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17) Why is auditing a multinational corporation potentially more difficult than auditing an entity that has only domestic operations?

- A) Language differences
- B) Cultural differences
- C) Multiple sets of accounting standards
- D) All of the above

Answer: D

Difficulty: 1 Easy

Topic: International Auditing

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).; 01-05 Explain the notion of global accounting standards.; 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Apply

AACSB: Reflective Thinking

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18) What is the entry point for most companies into the world of international business?

- A) Transfer pricing
- B) Exporting
- C) Foreign direct investment
- D) Cross-listing on international stock exchanges

Answer: B

Difficulty: 1 Easy

Topic: Global Economy

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

19) For a U.S. multinational corporation, consolidating the financial statements of foreign subsidiaries requires two steps. First, the foreign subsidiary's statements must be restated according to the U.S. GAAP. The next step is to:

- A) convert the account balances into U.S. dollars.
- B) determine the exchange rate gain or loss.
- C) calculate the translation adjustment.
- D) restate the income using international accounting standards.

Answer: A

Difficulty: 2 Medium

Topic: Financial Reporting of Foreign Operations

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Analyze

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

20) When setting transfer prices among international subsidiaries, the corporation must:

- A) make sure that the total tax is minimized.
- B) ensure that the transfer prices are acceptable to the taxing authorities in the countries involved.
- C) do whatever it takes to make taxes paid in the United States as low as possible.
- D) follow the transfer pricing policy used for domestic transfers.

Answer: B

Difficulty: 2 Medium

Topic: International Transfer Pricing

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Analyze

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 21) What is the primary provision of the Foreign Corrupt Practices Act?
- A) To specify which corrupt practices are acceptable under U.S. law
 - B) To specify how to account for bribes paid by U.S. corporations to obtain business from foreign governments
 - C) To inform internal auditors how to detect fraud in multinational corporations
 - D) To prohibit U.S. companies from paying bribes to foreign government officials to obtain business

Answer: D

Difficulty: 2 Medium

Topic: International Auditing

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

- 22) What is a key objective of a company's performance evaluation system?
- A) To determine how much to pay executives in bonuses and other compensation
 - B) To ensure that the domestic and foreign operations are achieving their objectives
 - C) To control foreign subsidiaries
 - D) To assess the effect of foreign exchange rates on published financial statements

Answer: B

Difficulty: 1 Easy

Topic: Performance Evaluation of Foreign Operations

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

- 23) What is the primary role of internal auditing in a multinational corporation?
- A) To assist the external auditors in completing the financial statement audit in a timely fashion
 - B) To make sure that employees comply with local customs and traditions
 - C) To ensure that corporate policies and procedures are being followed and to assess operating efficiency
 - D) To prepare the consolidated financial statement of the corporation in compliance with international accounting standards

Answer: C

Difficulty: 2 Medium

Topic: International Auditing

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 24) Belmonte Corporation, with a division located in Germany, must translate its financial statements from euros to U.S. dollars. What is the major accounting issue involved in translation?

- A) Most accountants are not conversant in foreign currency exchange.
- B) U.S. GAAP may differ from German GAAP.
- C) The U.S. dollar has been steadily falling relative to the euro.
- D) The resulting balance sheet may not balance.

Answer: D

Difficulty: 1 Easy

Topic: Financial Reporting of Foreign Operations

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

25) The ownership and control of foreign assets, such as a manufacturing plant, is called:

- A) a hedge.
- B) foreign direct investment.
- C) an option.
- D) derivatives.

Answer: B

Difficulty: 1 Easy

Topic: Foreign Direct Investment

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

26) What is a "greenfield" investment?

- A) Farm land held for speculation
- B) Foreign direct investment whereby a new facility is constructed abroad
- C) Purchasing an existing facility as a foreign direct investment
- D) A foreign investment that has been approved by the Environmental Protection Agency

Answer: B

Difficulty: 1 Easy

Topic: Foreign Direct Investment

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

27) Which of the following is an example of a "greenfield" investment?

- A) Nike contracts with a footwear company in China to make athletic shoes.
- B) A Chinese oil company buys a U.S. oil company.
- C) Toyota, a Japanese automaker, builds an assembly plant in Ohio.
- D) Daimler, a German automaker, merges with Chrysler, a U.S. automaker.

Answer: C

Difficulty: 2 Medium

Topic: Foreign Direct Investment

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

28) Which of the following is a reason for foreign direct investment?

- A) To reduce costs of doing business
- B) To protect domestic markets
- C) To protect foreign markets
- D) All of the above

Answer: D

Difficulty: 1 Easy

Topic: Foreign Direct Investment

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

29) A translation adjustment may be necessary when:

- A) notes to financial statements are converted from one language to another.
- B) foreign currency financial statements are converted to another currency.
- C) purchasing goods from a domestic company.
- D) hedging foreign currency.

Answer: B

Difficulty: 2 Medium

Topic: Financial Reporting of Foreign Operations

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

30) What is "transfer pricing?"

- A) The cost to convert from one country's GAAP to another country's GAAP
- B) The value of sales made in a foreign country
- C) The prices established to record an intercompany sale
- D) The taxes paid on sales in a foreign country

Answer: C

Difficulty: 1 Easy

Topic: International Transfer Pricing

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

31) ABCO Corporation has its two wholly owned subsidiaries, Delta and Parry, in Country A and Country B, respectively. Parry purchases a part for its production from Delta. Country B has a higher tax rate than Country A. To minimize the corporation's overall income tax, how should ABCO set its transfer prices between its subsidiaries?

- A) Delta should sell parts to Parry at low prices.
- B) Delta should sell parts to Parry at high prices.
- C) It doesn't matter what transfer price is used because the subsidiaries are part of the same company.
- D) Transfer pricing does not affect the total tax paid by the corporation.

Answer: B

Difficulty: 1 Easy

Topic: International Transfer Pricing

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Evaluate

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

32) Which of the following is a reason for the tremendous increase in the flow of foreign direct investment from 1990 to 2011?

- A) The relaxation of transfer pricing regulations
- B) The liberalization of investment laws in many countries
- C) The similarities in tax rates and tax laws across the globe
- D) The universal application of U.S. GAAP accounting standards

Answer: B

Difficulty: 1 Easy

Topic: Foreign Direct Investment

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Evaluate

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

33) What is KPMG?

- A) It is a Dutch manufacturing company with plants in over 50 countries worldwide.
- B) It is an international public accounting firm.
- C) It is the largest of the multinational corporations listed on the NYSE.
- D) It is a governmental agency whose aim is promoting international business.

Answer: B

Difficulty: 1 Easy

Topic: International Auditing

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.; 01-04 Describe the practice of cross-listing on foreign stock exchanges.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

34) When a foreign subsidiary pays dividends to its U.S. parent, this process is known as:

- A) repatriation.
- B) the reverse authoritative principle.
- C) income-splitting.
- D) asset management.

Answer: A

Difficulty: 3 Hard

Topic: Foreign Direct Investment

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

35) Many countries have recently liberalized their investment laws. What is the primary reason for these actions?

- A) To make it more difficult for multinational companies to compete with domestic corporations
- B) To encourage foreign direct investment
- C) To enable funds to flow out of their country more easily
- D) To make taxing foreign companies easier

Answer: B

Difficulty: 2 Medium

Topic: Foreign Direct Investment

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.; 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

36) Which of the following statements is true about international transfer pricing?

- A) It is a violation of the Foreign Corrupt Practices Act.
- B) It is accomplished using guidelines set up by the FASB.
- C) It can be used to minimize the amount of worldwide taxes.
- D) It cannot be regulated by countries.

Answer: C

Difficulty: 2 Medium

Topic: International Transfer Pricing

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

37) The practice of having the stock listed and traded on several foreign stock exchanges is known as:

- A) SEC registration.
- B) initial public offering.
- C) consolidation.
- D) cross-listing.

Answer: D

Difficulty: 1 Easy

Topic: Cross-listing on Foreign Stock Exchanges

Learning Objective: 01-04 Describe the practice of cross-listing on foreign stock exchanges.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

38) Foreign companies that are listed on the New York Stock Exchange (NYSE) and following their domestic GAAP must report their income in terms of:

- A) the International Accounting Standards.
- B) the GAAP of their home country.
- C) the GAAP of the United States.
- D) All of the above

Answer: C

Difficulty: 2 Medium

Topic: Cross-listing on Foreign Stock Exchanges

Learning Objective: 01-04 Describe the practice of cross-listing on foreign stock exchanges.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

39) Which of the following is a reason a company might cross-list itself on a foreign stock exchange?

- A) It wants to hedge against currency fluctuations.
- B) It is less expensive than listing itself solely on a domestic exchange.
- C) It wants to obtain acquisition currency for acquiring a foreign company.
- D) It is required for accomplishing foreign direct investment.

Answer: C

Difficulty: 2 Medium

Topic: Cross-listing on Foreign Stock Exchanges

Learning Objective: 01-04 Describe the practice of cross-listing on foreign stock exchanges.

Bloom's: Analyze

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

40) Why would a company want its stock cross-listed on the stock exchanges of several countries?

- A) To make financial reporting less burdensome for its accounting firm
- B) In order to use International Financial Reporting Standards
- C) To gain access to more financial resources than are available in its home country
- D) All of the above

Answer: C

Difficulty: 2 Medium

Topic: Cross-listing on Foreign Stock Exchanges

Learning Objective: 01-04 Describe the practice of cross-listing on foreign stock exchanges.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

41) What group is primarily responsible for the creation of International Financial Reporting Standards (IFRS)?

- A) Financial Accounting Standards Board (FASB)
- B) International Forum on Accountancy Development (IFAD)
- C) International Federation of Accountants (IFA)
- D) International Accounting Standards Board (IASB)

Answer: D

Difficulty: 1 Easy

Topic: Global Accounting Standards

Learning Objective: 01-05 Explain the notion of global accounting standards.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

42) Which of the following is an advantage of having a single set of accounting standards used worldwide?

- A) Reduced accounting costs for multinational corporations
- B) Increased power of the FASB
- C) Reduced number of multinational corporations on the NYSE
- D) Increased diversity of accounting methods used by multinational corporations

Answer: A

Difficulty: 1 Easy

Topic: Global Accounting Standards

Learning Objective: 01-05 Explain the notion of global accounting standards.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

43) Assume that ABCO is a U.S. multinational corporation. Its foreign subsidiaries must report income in their respective countries according to GAAP in those countries. How must ABCO report its consolidated financial statements?

- A) ABCO must choose any one country's accounting standards and combine the subsidiary reports into the parent company's statements using that one country's GAAP.
- B) Since the company is operating in several different countries, the International Accounting Standards must be used for the consolidated financial statements.
- C) Since ABCO is a U.S. corporation, U.S. generally accepted accounting principles, or GAAP, must be used for the consolidated financial statements.
- D) On the consolidated financial statements, each subsidiary's financial results must be shown in the currency of the country where the subsidiary is located.

Answer: C

Difficulty: 1 Easy

Topic: Global Accounting Standards

Learning Objective: 01-05 Explain the notion of global accounting standards.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

44) In 2011, the country with the largest amount of exports was:

- A) the United States of America.
- B) China.
- C) Japan.
- D) Germany.

Answer: B

Difficulty: 2 Medium

Topic: International Trade

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

45) Which of the following ratios is used in the calculation of the multinationality index (MNI)?

- A) Foreign working capital to total working capital
- B) Foreign cash to total cash
- C) Foreign employment to total employment
- D) Foreign loans to total loans

Answer: C

Difficulty: 2 Medium

Topic: Multinational Corporations

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

46) The number of companies involved in international trade has grown significantly in recent years. What percent of U.S. exporters are relatively small companies (i.e. less than 500 employees)?

- A) Less than 5%
- B) 10%
- C) 25%
- D) More than 90%

Answer: D

Difficulty: 1 Easy

Topic: International Trade

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

47) OECD is an important supranational entity. What do the letters OECD stand for?

- A) Organization of Electrical Companies Directorate
- B) Oil Exporting Countries and Developers
- C) Organization for Economic Cooperation and Development
- D) Oil Exporting Corporations and Divisions

Answer: C

Difficulty: 1 Easy

Topic: International Trade

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

- 48) What countries are collectively known as "the triad"?
- A) France, Spain, and Italy
 - B) Germany, Russia, and China
 - C) United States, Japan, and members of the European Union
 - D) United States, Canada, and Mexico

Answer: C

Difficulty: 1 Easy

Topic: International Trade

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

- 49) Which of the following is true about foreign direct investment?
- A) It is a means of reducing transportation costs in export sales.
 - B) Since the 1980s, foreign direct investment has been relatively stable worldwide.
 - C) Only very large corporations are undertaking foreign direct investment.
 - D) It refers only to the amount of money U.S. corporations put into non-U.S. businesses.

Answer: A

Difficulty: 2 Medium

Topic: Foreign Direct Investment

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 50) In the context of multinational corporations, the United States, Japan, and members of the European Union are collectively known as the:
- A) G8.
 - B) Commonwealth.
 - C) triad.
 - D) OECD.

Answer: C

Difficulty: 2 Medium

Topic: Multinational Corporations

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Understand

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

51) What share of the world's gross domestic product (GDP) is generated by the 100 largest multinational companies?

- A) 4%
- B) 12%
- C) 50%
- D) 75%

Answer: A

Difficulty: 2 Medium

Topic: Multinational Corporations

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

52) What does "multinationality" mean?

- A) Geographical distribution of sales, assets, and employees of the company
- B) The diversity of languages spoken at a company's headquarters
- C) The number of stock exchanges where a company's shares are listed
- D) None of the above

Answer: A

Difficulty: 2 Medium

Topic: Multinational Corporations

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

53) In 2011, the most popular location for inbound foreign direct investment (FDI) among OECD countries was:

- A) France.
- B) China.
- C) the United States.
- D) Australia.

Answer: C

Difficulty: 2 Medium

Topic: International Trade

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Remember

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

54) The following data relates to Alpha Inc. and Sigma Solutions:

Ratios	Alpha Inc.	Sigma Solutions
Foreign Assets/Total Assets	57	63
Foreign Sales/Total Sales	60	66
Foreign Employment/Total Employment	63	60

Which of the following statements is true of Alpha and Sigma?

- A) Sigma Solutions is more multinational as its ratio of foreign sales to total sales is more than Alpha Inc.
- B) Alpha Inc. is more multinational as its ratio of foreign employment to total employment is more than Sigma Solutions.
- C) Sigma Solutions has a higher multinationality index than that of Alpha Inc.
- D) Alpha Inc. has a higher multinationality index than that of Sigma Solutions.

Answer: C

Difficulty: 2 Medium

Topic: Multinational Corporations

Learning Objective: 01-06 Examine the importance of international trade; foreign direct investment; and multinational corporations in the global economy.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

55) As per U.S. corporate tax laws, which of the following statements is true of a company that is incorporated in the U.S. and has a branch in a foreign country?

- A) The credit for the amount of taxes already paid is given to arrange for double taxation.
- B) The credit for the amount of taxes already paid is given to charge for the taxes not paid in the home country.
- C) The credit for the amount of taxes already paid is given to refund the taxes already paid in the home country.
- D) The credit for the amount of taxes already paid is given to give relief for the taxes paid in the foreign country.

Answer: D

Difficulty: 2 Medium

Topic: International Income Taxation

Learning Objective: 01-03 Explain the reasons for; and the accounting issues associated with; foreign direct investment.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

56) Which of the following is the primary role of an internal auditor?

- A) To ensure the adoption of IFRS by all foreign companies
- B) To prepare the financial statements of the company
- C) To uncover errors, inefficiencies, and fraud
- D) To prepare the financial budgets for the company

Answer: C

Difficulty: 2 Medium

Topic: International Auditing

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

57) The operations of Silver Lights Inc. incorporated in the U.S. are spread out in Ireland, Finland, and Chile. Which of the following statements is true about the operations of Silver Lights Inc.?

- A) The financial statements of Silver Lights must be prepared in local currencies of the branch countries for consolidation purposes.
- B) The external auditor of Silver Lights must be proficient in U.S. auditing and financial reporting standards to audit the operations of branch offices.
- C) Silver Lights Inc. must give credit for the corporate tax paid as per U.S. tax laws to provide relief from double taxation.
- D) The transfer of parts between U.S. operations and other branches should be at the highest acceptable price most profitable to Silver Lights Inc. keeping in view the rate of tax and tax authorities in respective nations.

Answer: D

Difficulty: 2 Medium

Topic: International Transfer Pricing

Learning Objective: 01-02 Describe accounting issues confronted by companies involved in international trade (import and export transactions).

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation