

RESPONSE BY UNITED STATES FINANCIAL MANAGERS TO FINANCIAL ACCOUNTING STANDARD NO. 8

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Abstract. This study reports the response of 103 financial managers of United States multinational corporations to the Financial Accounting Standards Board Statement #8 with regard to foreign currency translation. A sizable majority of financial managers felt that FAS #8 was inferior to their prior translation method and should be modified or eliminated. The article examines reported reasons for these responses.

The effect of FAS #8 upon exposure management is examined, with emphasis upon the fact that 23.3% of the respondents indicated that action intended to reduce accounting exposure had the direct effect of increasing economic exposure. Finally, consideration is given to implications of the financial officers' expressed concern that financial analysts do not always properly assess the significance of translation gains and losses; this perception may not be true, in light of efficient markets considerations, but the actions of the corporate treasurers appear to be influenced by it.

■ A strong case can be made that the most controversial of all the pronouncements of the Financial Accounting Standards Board has been number eight, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements."¹ This standard establishes uniform rules for the translation into dollars of the foreign currency financial statements of foreign subsidiaries of U.S.-based multinational corporations; such translation is necessary in order that consolidated financial statements may be prepared in dollar equivalents.

Financial Accounting Standard No. 8 (FAS #8) modifies previously accepted translation standards and removes previously accepted alternatives. Prior to FAS #8, financial statements might be translated into dollars using one or an admixture of several alternative methods; differing treatment in translation depended upon the attributes of the assets and liabilities measured. Foreign exchange reserve accounts were widely used; these accounts made possible some "smoothing" of the effects of foreign exchange fluctuations upon reported earnings. For example, the reserve account could absorb unrealized exchange gains and subsequent unrealized exchange losses arising from translation of foreign balance sheets, thus "protecting" reported earnings. One acceptable translation method was the monetary/nonmonetary method, under which monetary items were translated at current exchange rates, i.e., the rates prevailing on the balance sheet date, while nonmonetary items were translated at historic exchange rates, i.e., those prevailing at the acquisition date. Another alternative was the current/noncurrent method, under which cur-

INTRODUCTION

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rent items were translated at current rates, while noncurrent items were translated at historic rates. A third alternative was the current-rate method, under which all assets and liabilities were translated at the current rate.²

Items translated at current rates are "exposed," in an accounting sense, to foreign exchange fluctuations. Items translated at historic rates are not thus exposed. Consequently, different translation methods result in different accounting exposure.

FAS #8 is based on the temporal principle. For translating cash, and receivables and payables measured in amounts promised, the temporal principle mandates the use of the current foreign exchange rate; for assets and liabilities measured in money prices, it requires the use of an average-prevailing or historic rate, the one in effect when the asset or liability was originally acquired or recorded on the books.³ FAS #8 also requires that translation gains and losses be carried directly to net income; the foreign exchange reserve account is eliminated.

The adoption of FAS #8 has affected both the size and the direction of foreign currency gains and losses. The new standard and the volatility of foreign exchange rates under managed floating have resulted in wide fluctuations in the reported earnings of U.S.-based multinational corporations; those with a penchant for "managed earnings" have suddenly found them to be much less manageable. The financial press has been replete with suggestions that the volatility in reported earnings is cause to avoid or downgrade the stock of MNCs. Much critical attention has been focused upon FAS #8.⁴ While a number of leaders of the accounting community have praised the opinion for bringing consistency to translation practice and eliminating the controversial foreign exchange reserve account, much dissatisfaction remains. The Financial Accounting Standards Board itself has expressed concern that FAS #8 might induce financial managers to engage in uneconomic foreign exchange hedging activities in order to reduce the volatility of reported earnings.

It is, therefore, important to know how financial managers of multinational corporations have indeed responded to FAS #8. The answer has significance for the accounting profession, corporate financial managers, capital market theorists, financial analysts, and investors. This paper reports findings of a survey undertaken to study these managerial responses.

THE STUDY

The *Fortune* magazine listing of the one thousand largest U.S. industrial companies served as the initial population for the study. From this data base we culled 315 corporations that we defined as multinational in character as a result of operating in six or more countries⁵ outside the United States, as reported in the *Directory of American Firms Operating in Foreign Countries*.⁶

One hundred three firms (32.7%) responded to the questionnaire.⁷ The respondents, some of whom opted for confidentiality, represented a cross section of the major multinationals in this country and included such firms as Ford Motor Company, Union Carbide, Gulf Oil, and Westinghouse. A breakdown of firms by size, percentage of foreign sales to total sales, and accounting method used prior to FAS #8 is presented in Table 1. A series of follow-up phone calls was used to evoke further comments from the participants and to contact 36 nonrespondents.⁸ No significant difference in overall opinions was found in the latter group.

The intent of the questionnaire was to elicit opinions about the efficacy of Statement #8, to determine its perceived effect on the respondent's firm, to ascertain what defensive measures, if any, were being used to "normalize" earnings, and to determine how these efforts were organized and whether they caused additional economic exposure to the firm. Finally, the questionnaire was used to find out how the chief financial officer viewed earnings affected by foreign exchange translation, and also how he or she thought the marketplace viewed these earnings. (Was there a P/E ratio effect?)

TABLE 1

Selected Characteristics of the 103 U.S. Multinational Firms in the Sample

A. Annual Sales Volume	
<u>Classification</u>	<u>Number</u>
5 billion and over	13
2.5 billion to 5 billion	15
1.25 billion to 2.5 billion	24
1 billion to 1.25 billion	6
750 million to 1 billion	9
500 million to 750 million	7
250 million to 500 million	13
125 million to 250 million	11
100 million to 125 million	5
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B. Percent of Foreign Sales to Total Sales	
<u>Classification</u>	<u>Number</u>
0 - 10%	3
10 - 20%	14
20 - 30%	34
30 - 40%	26
40 - 50%	13
50 - 60%	12
over 60%	1
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C. Accounting Method Used Prior to FAS #8	
<u>Classification</u>	<u>Number</u>
Current/noncurrent	35
Monetary/nonmonetary	17
Modified monetary/nonmonetary (current treatment of inventory)	11
All current except fixed assets	11
Same as FAS #8	12
Other	17
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A series of data sorts and cross tabs were used to determine the interrelationships between answers to various questions and company characteristics. A chi-square "independence of classification" test was employed with the rejection of a given null hypothesis indicating a statistically significant relationship as indicated in Appendix A. For example, a null hypothesis—that the attitude toward FAS #8 was independent of prior use of reserve accounts—was rejected at both an alpha level of .01 and .10 based on the computed χ^2 value ($14.886 > 9.210$ or 4.605). In this instance we could infer that prior use of reserve accounts influenced perceptions about FAS #8.

Findings of our study with regard to the response of financial managers to accounting aspects of FAS #8, foreign exchange exposure management under the standard, and related efficient market implications will be presented in the balance of this paper.

The chief objections of our respondents to FAS #8 were related to its treatment of inventory and long-term debt and to its prohibition of the use of foreign exchange reserve accounts; general objections were its alleged creation of distortions and greater volatility in operating results and reported earnings. The major objections and their implications will be discussed in some detail.

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Inventory

FAS #8 requires that inventory carried at cost be translated at historical exchange rates; inventory carried at market is translated at current rates, and the lower of cost or market test is applied after translation.⁹ Inventory carried at cost is not an "exposed" asset on the balance sheet; appreciation of a local currency does not produce a foreign exchange translation gain and depreciation of a local currency does not produce a translation loss. The corollary of this treatment of inventory is historical cost of goods sold.

These inventory translation rules were widely criticized by our respondents for: 1) creating changes in operating margins;¹⁰ 2) creating distortions associated with write-downs, timing, and taxes; 3) resulting in deferral of losses in cases of local-currency devaluation, contrary to a conservative accounting approach; 4) being illogical;¹¹ and 5) being impractical for internal reporting purposes.

Seventy-one percent of our respondents characterized FAS #8 as "worse" than the translation method they had previously used; of these, twenty-four specified the treatment of inventory as a/the reason for this evaluation, and an additional eighteen specified inventory-related aspects such as cost of goods sold and effect on operating margins. Among these were such companies as Uniroyal, CPC International, Westinghouse, Nabisco, Leeds and Northrup, Container Corporation, Upjohn, Ford, Deere, Hyster, and Firestone.

It should be noted that the FAS #8 treatment of inventory may also create problems for security analysis, including the interpretation of operating and profitability ratios and the forecasting of future earnings, particularly under floating exchange rates.

Long-term Debt and Prohibition of Foreign Exchange Reserve Accounts

The second most unpopular aspect of FAS #8's translation rules was the treatment of long-term debt, which was criticized by 13% of our respondents.

Under FAS #8, long-term debt is exposed to foreign exchange fluctuations, since it is translated at current exchange rates, and any change in dollar value is carried directly into income.¹² The objection of financial officers to this treatment of long-term debt translation is largely, but not solely, related to the elimination of foreign exchange reserve accounts and to the volatility-of-earnings issue.

Although the change in rules was potentially most drastic for those firms that previously employed the current/noncurrent translation method (under which long-term debt was not exposed to exchange rate fluctuations until it became a current liability), half of our respondents who were critical of FAS #8's treatment of long-term debt had previously employed the monetary/nonmonetary method (under which, as with FAS #8, long-term debt was exposed); however, they had used the monetary/nonmonetary method in conjunction with foreign exchange reserve accounts. Indeed, among those respondents critical of #8's treatment of long-term debt, only one had not used reserve accounts, pre-FAS #8.

Thus, among those respondents who criticized FAS #8 for the translation treatment of long-term debt, the dislike was closely tied to the prohibition of reserve accounts. Critics preferred prior translation methods that allowed translation gains or losses on long-term debt to be deferred and amortized over the life of the debt; many emphasized that no cash flow effect accompanies the prematurity translation gains or losses on long-term debt; e.g., a translation gain on weakening local currency long-term debt does not provide cash for dividends or capital spending.

Distortion and Volatility

The elimination of foreign exchange reserve accounts was a factor influencing the general attitude of our respondents toward FAS #8. Seventy-one percent of our respondents said that FAS #8 was worse as a method of translation than their previous method, and 64.7% of the respondents had previously used reserve accounts. Statistical testing as reported in Appendix A indicated a significant relationship between prior translation method and attitude toward FAS #8 and prior use of reserve accounts and dissatisfaction with FAS #8.

Further, those who had previously used reserve accounts were found to be incurring greater cost to reduce exposure than prior to FAS #8; as reported in Appendix A, incurrance of greater cost was found to be dependent upon prior use of reserve accounts at an alpha level of .10.

Among the general objections to FAS #8, the word "distortion" appeared again and again, with reference to operating results, earnings, interim earnings, quality of earnings, taxes, etc. Thirty-four percent of those critical of FAS #8 used the term "earnings volatility" or one of a dozen or so synonyms; an additional 13% specifically criticized FAS #8's impact upon interim earnings.

Emphasis on distortions and earnings volatility went hand-in-hand with repeated criticism to the effect that FAS #8 does not reflect economic reality and produces more fluctuations in results than are economically real.

Related to the problem of earnings volatility is the issue of exposure management, to which we now turn.

Exposure management may be concerned with either economic exposure or accounting exposure to foreign exchange gain or loss. Economic exposure includes all actual effects of exchange rate changes; it is exposure to foreign exchange gain or loss associated with actual transactions and conversions; there is a cash flow effect. While economic exposure includes transaction exposure, it is not limited to it; economic exposure may include potential future transaction effects—e.g., an increase in an exchange rate that places a subsidiary's products in a less competitive position in export markets, with a detrimental effect upon future cash flow from operations.¹³

Accounting exposure is synonymous with translation exposure; it thus includes unrealized bookkeeping gains and losses stemming from foreign exchange fluctuations. Accounting exposure varies with the translation method used.

One of the objectives of our study was to determine what effect, if any, FAS #8 had upon exposure management by U.S. multinational corporations. In response to an open-ended question asking what they were doing in response to FAS #8 to reduce or cover exposure, 52% of our respondents were found to be doing something in response to accounting exposure as defined by FAS #8; 17% said that they were stressing economic exposure, not accounting exposure; 31% said that they were doing nothing or nothing new specifically in response to FAS #8. Respondents representing 16% of the total said that operational factors and continuing effects from the pre-FAS #8 period were inhibiting their actions or increasing the cost of them, a situation that can be expected to moderate as adjustments are made over time. Perhaps most disturbing, 23.2% of the respondents indicated that they had taken action to reduce accounting exposure which had resulted in an increase in economic exposure.

Among those who stressed the management of economic exposure rather than translation exposure, one could infer widely differing definitions of "economic exposure." A sizable number of respondents indicated that they were making studies to determine the nature of their economic exposure, did not know what it was nor how to define it, and/or, in the absence of a definition of economic exposure and/or knowledge of its extent, were currently ignoring it. One respondent specifically stated that efforts to reduce economic exposure had increased accounting exposure. Others stated that there had been "pressure" to take actions that would have reduced accounting exposure at the cost of greater economic exposure.

In terms of accounting exposure, exposure management may be viewed as having two conceptually separate but related aspects: 1) the management of balance sheet items so as to minimize net exposure—i.e., have neither net exposed assets nor net exposed liabilities;¹⁴ and 2) the decision as to whether or not to cover or hedge remaining exposure in the

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forward foreign exchange markets. The choice between use of a money market hedge (borrowing/lending) or the forward market (selling/buying) is an alternative cost problem, assuming that both are available; thus, the conceptual distinction blurs in practice.

In response to a question with regard to the organization of hedging or covering operations in money markets and forward markets, financial officers in our study reported as follows about their operations:

	Money market Operations	Forward Exchange Market Operations
Centralized but unchanged since FAS #8	68.7%	75.4%
More centralized than pre-FAS #8	20.9%	17.8%
Less centralized than pre-FAS #8	0%	0%
Continued decentralized	10.4%	6.8%

These hedging or covering operations were also reported to be more highly centralized than the overall finance function of the firm.¹⁵ Since decentralized money or forward market operations may be redundant and suboptimal for the enterprise as a whole,¹⁶ the move toward greater centralization may be viewed as a positive outgrowth of FAS #8.

However, both balance sheet hedging and use of forward cover may be uneconomic. Although FAS #8 does not appear to have fostered a change in hedging or covering techniques, it has led to greater emphasis upon accounting exposure reduction and hedging, including willingness to use the forward exchange market to hedge balance sheet exposure; such behavior may result in an increase in economic exposure even as translation exposure is reduced.

Those who reported noneconomic local currency borrowing entered into in order to balance or offset exposed assets expressed concern with: 1) increased leverage and its associated dangers and costs; 2) deterioration of the borrower's current ratio, with resultant deterioration in credit rating; and 3) payment of "government-ordered interest rates of 60% to 70% per year." One interviewee, who was critical of the interest expense incurred in local currency borrowing to cover translation losses, stressed that it was costing "cash money" to cover an accounting exposure, but that he expects pressure from management to do this whenever they are not meeting plan.

While "cash money" expense to cover a translation exposure is involved in use of both the forward market and local-currency credit markets for this purpose, local-currency borrowing that results in a downgrading of the corporation's credit and quality rating in the money and capital markets has an additional impact in the form of subsequently higher cost of capital. The advisability of such action, then, may hinge upon the response of capital markets to translation-induced earnings volatility, an issue not yet empirically resolved.¹⁷

In addition to possibly noneconomic balance sheet hedging and use of forward cover, noneconomic responses to the problem of translation exposure may include pricing decisions influenced by foreign exchange considerations despite possible adverse effects upon competitive market positions. On the other hand, some efforts to reduce accounting exposure may also reduce economic exposure; respondents frequently mentioned greater concern with intercompany transactions as one form of response to FAS #8. While such transactions may involve mere bookkeeping entries, they may improve overall corporate cash flow and resource allocation.

EFFICIENT MARKETS

A number of studies conducted in the early 1970s indicated that the capital markets were very efficient in digesting and interpreting the reported earnings of major U.S. corporations. Representative research studies include Comiskey (1971),¹⁸ Archibald (1972),¹⁹ Baskin (1972),²⁰ Kaplan and Roll (1972),²¹ and Sunder (1973).²² Each maintained that a change in accounting method has little or no effect on market value unless there is a

change in the economic value of the firm. For example, if an accounting change is not accompanied by a tax change that actually influences the cash flow of the firm, the market reaction is presumed to be very short-term and basically neutral. The aforementioned studies dealt with accounting changes related to a switch in methods of recognition for the investment credit, a move from accelerated to straight-line depreciation for financial reporting purposes and various changes in inventory accounting methods.

Makin has recently demonstrated that the share price of multinational firms may be influenced by FAS #8.²³ Although his positive results were limited to a small group of thirteen firms particularly sensitive to foreign exchange translation (and only during the April 1976-March 1977 time period), his research will cause others to reexamine the efficient markets hypothesis. Aggarwal also has seriously questioned the potential investor-analyst's ability to see through or properly weigh FAS #8 in regard to earnings volatility.²⁴ Further insight on valuation impact of FAS #8 will undoubtedly come from the Dukes Study at Cornell University funded by the Financial Accounting Standards Board and the Shank Study at Ohio State under the sponsorship of the Financial Executives Institute.

Though we must await the results of the current research on efficient markets and FAS #8 to reach definitive conclusions, it is quite interesting to note the perceptions of corporate financial officers as to the probable impact of FAS #8 on the market evaluation of multinational companies. Slightly more than forty-two percent (42.7) thought security analysts considered translation gains and losses to be part of the normal earnings stream of the firm, and thus would weigh them equally with other earnings in assigning a valuation to the firm. This is particularly enlightening when one considers that only 16% of the corporate financial officers themselves would assign such importance.

There is some evidence that corporate financial officers would attribute a good deal less sophistication and "efficiency" to the security analyst's role than one would normally assume. The financial officers in our study responded as follows to a question about the impact of FAS #8 on investments in multinational corporations:

Have retained their attractiveness as an investment	34.0%
Are less attractive and may command a lower P/E ratio	41.7%
Are more attractive and may command a higher P/E ratio	0%
No opinion	24.3%

While the foregoing data do nothing to disprove efficient market theory, they do tell us a great deal about the fears and concerns of corporate financial officers. Either they do not understand or, more likely, they do not accept the notion of an efficient market observing their performance. This, itself, may be quite significant because corporate treasurers are obviously taking action to protect themselves against the additional accounting exposure created by FAS #8. To the extent that 23.2% are taking actions that clearly increase economic exposure to minimize accounting exposure, the normative action called for by an efficient markets model is violated.²⁵ Questionnaire responses as well as follow-up telephone conversations indicate a very real fear of stock market reaction to FAS #8 consequences and the need for defensive measures.

In summary:

- 1) Seventy-one percent of our respondents viewed FAS #8 as "worse" than the translation method they had previously used; the prohibition of the use of foreign exchange reserve accounts and the rules for translation of inventory and long-term debt were the most criticized aspects of the standard.
- 2) FAS #8 has led to more emphasis upon foreign exchange exposure management.
- 3) Twenty-three percent of our respondents indicated that action taken to reduce accounting exposure had resulted in an increase in economic exposure.

CONCLUSIONS

4) Although only 16% of our respondents would weigh translation gains and losses equally with other earnings in assigning a valuation to the firm, 42.7% of the respondents thought that security analysts considered translation gains and losses to be part of the normal earnings stream of the firm.

5) Consistent with the latter belief, 41.7% of our respondents thought that multinational corporations could be considered less attractive as a result of FAS #8 and thus command a lower P/E ratio.

6) The broad picture is that financial managers dislike FAS #8 because it tends to create volatility and what they regard as distortions in reported earnings; many of them think that security analysts treat translation gains and losses as the equivalent of other earnings. The financial managers are thus giving more attention to exposure management, many going so far as to take action to reduce accounting exposure even at the expense of greater economic exposure; this action may be the normatively correct response in the short run, if financial managers are correct in their belief that translation-induced volatility in reported earnings tends to make the stock of multinational corporations less attractive and to reduce their P/E ratios.

APPENDIX A

Chi-Square - Independence of Classification Tests

<u>Null Hypothesis</u>	<u>χ^2</u>	<u>D.F.</u>	<u>Alpha</u> <u>.01</u> <u>.10</u>	<u>Conclusion</u>
Attitude toward FASB #8 is independent of prior use of reserve accounts.	14.866	2	9.210 4.605	Reject hypothesis-prior use of reserve accounts affects attitude.
Attitude toward FASB #8 is independent of prior translation method.	32.1194	10	23.209 15.987	Reject hypothesis-prior translation method affects attitude.
Incurrence of greater cost to reduce exposure is independent of prior use of reserve accounts.	4.291	1	6.635 2.706	Hypothesis is accepted at alpha of .01, but <u>rejected</u> at alpha of .10.
Reduction of accounting exposure through increased economic exposure is independent of prior use of reserve accounts.	1.221	1	6.635 2.706	Accept hypothesis-variables are assumed to be independent.
Attitude toward translation gains and losses is independent of prior use of reserve accounts.	.0018	1	6.635 2.706	Accept hypothesis-variables are assumed to be independent.
Incurrence of greater cost to reduce exposure is independent of prior translation method.	6.322	5	15.086 9.236	Accept hypothesis-variables are assumed to be independent.
Reduction of accounting exposure through increased economic exposure is independent of prior translation method.	2.462	5	15.086 9.236	Accept hypothesis-variables are assumed to be independent.
Attitude toward translation gains and losses is independent of prior translation method.	4.217	5	15.086 9.236	Accept hypothesis-variables are assumed to be independent.
Attitude toward translation gains and losses is independent of perception of security analyst and investor reaction.	.555	2	9.210 4.605	Accept hypothesis-variables are assumed to be independent.

FOOTNOTES

1. Financial Accounting Standards Board, *Statement of Financial Accounting Standards No. 8, Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements*, October 1975.
2. For more detailed discussion of translation methods, past and present, see: Raj Aggarwal, "FASB No. 8 and Reported Results of Multinational Operations: Hazard for Managers and Investors," *Journal of Accounting, Auditing and Finance* 1 (Spring 1978), pp. 197-217; and "The Translation Problem in International Accounting: Insights for Financial Management," *Management International Review* 2-3 (1975), pp. 67-79; A. L. Pakkala, "Foreign Exchange Accounting of Multinational Corporations," *Financial Analysts Journal* (March-April 1975), p. 32; and J. H. Combes and J. W. Houghton, "Translating Foreign Currency," *Finance Executive* (December 1973), pp. 8-16.
3. For more detailed discussion of the temporal principle, see Leonard Lorenson, "The Temporal Principle of Translation," *The Journal of Accountancy* (August 1972), pp. 48-54, and *Reporting Foreign Operations of U.S. Companies in U.S. Dollars*, Accounting Research Study No. 12, American Institute of Certified Public Accountants, 1972, pp. 17-19.
4. See, for example, John K. Shank, "FASB Statement 8 Resolved Foreign Currency Accounting—Or Did It?," *Financial Analysts Journal* 32 (July-August 1976), pp. 55-61; David Norr, "Currency Translation and the Analyst," *Financial Analysts Journal* 32 (July-August 1976), pp. 46-54; Anna Merjos, "For Better or Worse FASB #8 Continues to Play Hob with Corporate Earnings," *Barrons* 33 (8 August 1977), p. 11; Everett Mattlin, "Playing the Currency Game," *Institutional Investor* (May 1976), p. 83.
5. A limited number of questionnaires were sent to firms operating in fewer than six countries, but were later excluded from further analysis.
6. *Directory of American Firms Operating in Foreign Countries*, 8th edition, Volume 2, American Encyclopedia of International Information (New York: Simon and Schuster; World Trade Academy Press, 1975).
7. The authors will be pleased to provide interested readers with a complete copy of the questionnaire upon request.
8. Based on optimal sampling techniques among nonrespondents, William C. Cochran, *Sampling Techniques*, 3d ed., (New York: John Wiley and Sons, Inc., 1977).
9. Financial Accounting Standards Board, op. cit., paragraphs 12, 14, 38, 46.
10. Assuming no change in local-currency selling price and no operating changes, appreciation of a local currency results in higher margins in dollar terms since cost of goods sold is translated at historical exchange rates while selling price is translated at average current rates. Depreciation of a local currency of course results analogously in lower margins in dollar terms.
11. Analysis of the "why" of these responses is beyond the scope of this paper, but will be the focus of a subsequent one.
12. Financial Accounting Standards Board, op. cit., paragraphs 7, 17, 164.
13. For a detailed discussion of economic exposure, see Andreas R. Prindle, *Foreign Exchange Risk*, (London: John Wiley and Sons, 1976), Chapter 3.
14. Some corporations may speculate, seeking only to reduce net exposed assets in currencies which they expect to weaken, and to avoid net exposed liabilities in currencies which they expect to strengthen.
15. The magnitude of difference was approximately 15 percent.
16. See Alan C. Shapiro and David P. Rutenberg, "Managing Exchange Risks in a Floating World," *Financial Management* 5, (Summer 1976), pp. 53-56. Centralization was already viewed as essential by a majority of respondents to a 1972 Survey reported in Marjorie T. Stanley and John D. Stanley, "Financial Management and the Changing International Monetary Environment," Financial Management Association proceedings, October 1972.
17. Some evidence on this issue is reported by John H. Makin in "Flexible Exchange Rates, Multinational Corporations, and Accounting Standards," *Federal Reserve Bank of San Francisco Economic Review* (Fall 1977), pp. 44-55.
18. E. E. Corniskey, "Market Responses to Changes in Depreciation Accounting," *The Accounting Review* 46 (April 1971), pp. 279-285.
19. Ross T. Archibald, "Stock Market Reaction to Depreciation Switch-back," *The Accounting Review* 47 (January 1972), pp. 22-30.
20. Elba F. Baskin, "The Communications Effectiveness of Consistency Exceptions," *The Accounting Review* 47 (January 1972), pp. 38-51.

21. Robert Kaplan and Richard Roll, "Investor Evaluation of Accounting Information: Some Empirical Evidence," *Journal of Business* (April 1972), pp. 225-57.
22. Shyam Sunder, "Relationship Between Accounting Changes and Stock Prices: Problems of Measurement and Some Empirical Evidence," *Empirical Research in Accounting: Selected Studies 1973*. Supplement to Vol. 2, *Journal of Accounting Research*, pp. 1-45.
23. Makin, op. cit., pp 44-45.
24. Raj Aggarwal, "FASB No. 8 and Reported Results of Multinational Operations: Hazard for Managers and Investors," pp. 197-217.
25. See Dennis E. Logue and George S. Oldfield, "Managing Foreign Assets When Foreign Exchange Markets are Efficient," *Financial Management* 6 (Summer 1977), pp. 16-22.