CHAPTER II

REVIEW OF RELATED LITERATURES

2.1. MULTINATIONAL CORPORATION CONCEPT

The Multinational Corporation is a special type of international firm. An international company is one that engaged in any combination of activities, from exporting/importing to full-scale manufacturing-in foreign countries. In contrast, the multinational corporation is a highly developed international company with world-wide involvement and a global perspective in its management and decision making. A more specific definition of an MNC is suggested by W. A. Dymeza :

1. Although a MNC may not do business in every region of the world, its decision makers consider opportunities globally.
2. A considerable portion of an MNC's assets are invested internationally. This could occur when 20 % of a company's assets are in other countries, or it could be when operations in other nations account for at least 35 % of the corporation's total sales and profits.
3. The corporation engages in international production and operates plants in several countries. These plants may range from assembly to fully integrated facilities.
4. Managerial decision making is based on a world-wide perspective.

The international business is no longer a sideline or segregated activity. International operations are integrated into the corporation's overall business.

currency is recorded in the domestic currency. when the transaction is settled, if there has been no change in exchange rates, the domestic value of the foreign currency amount will be the same as recorded in the books when the transaction was initiated. But if the rate ha changed, either up or down, then the domestic value of the foreign currency paid or received on the settlement date will differ from that recorded in the books, and that difference will require accounting treatment.

Things can become even more complicated when an interim reporting date interrupts the cycle. When the new, interim financial statements are prepared, the foreign currency receivable or payable is still recorded in the accounting records at the date prevailing on the original date. If the rate has change since then, in order to prepare accurate financial statements later, the receivable or payable should be updated, using the most recent rate, which can create an exchange difference. This difference can be viewed as unrealized, as no settlement of the account has taken place, and future exchange rate changes are uncertain. In fact, the rate may change again from the time of the interim report to the settlement date, creating a new exchange difference. In light of the problems caused by exchange rate movements, there are two general schools of thought on accounting for international transactions, especially imports and exports: the one-transaction view and the two-transactions view. The two views differ principally on the treatment of exchange differences at interim reporting dates or settlement dates.

a. The two-transactions view considers the foreign exchange element methods:

a. Record the price variance at the time materials are received and placed in stores. This means that general ledger control account Materials is debited at standard cost and that the materials ledger cards are kept in quantities only. A standard price is noted on the card at the time the standards are set. As purchases are made, no prices are recorded on these cards.

b. Record the materials at actual cost when received, and determine the price variance at the time materials are requisitioned for production. This means that the general ledger control account Materials is debited at actual cost and that the materials ledger cards show quantities and Rupiahs values in a historical cost system. Certain advantages of a standard cost system are lost by this method. Furthermore, when materials are requisitioned for production, the problem of deciding which actual cost is applicable is again present.

c. Use the combination of the two methods above. Calculate variances when the materials are received, but defer charging variances to production until the materials are actually placed in process. At that time only the variance applicable to the quantity used will appear as a current charge, the balance remaining as a part of the materials inventory.

For the control purposes, the price variance should be determined at the because it is also relate with the external party, that is government. What company could do is by setting Exchange Rate Standard based on budget. Any differed and amortization of inventory caused by the Exchange Rate Standard will be done every month based on the stock level of inventory.

1. Import transaction;
   a. Raw material which is defined as the aggregate of items of tangible property which will enter directly into the manufacturing process that results in and/or becomes an integral part of the production of finished goods (Corn Starch Pregelatine Zed) that was delivered from third party (Halewood).
   b. Bulk material which is defined as product manufactured or distributed by Warner Lambert locations (semi finished goods), which will enter directly into the manufacturing process that result in and/or becomes an integral part of the production of finished goods (Gemfibrozil Powder).
2. Export transaction; On this transaction, inventory refers to assets ready to be sold (finished goods of Lopid Fct) to other affiliate.

4.2.Recognition

Based on PSAK No.10, any transaction in foreign currency is recorded in Rupiah by use of the exchange rate in effect at that date. And then, in every balance sheet date, each assets and monetary liabilities in the term of foreign currency are reported in the term of Rupiah using the rate of balance sheet date. The exchange differences appear when there is a currency changes between transaction date and settlement date of monetary item that appear from foreign currency transaction. If the

Purchase from Third Party

On March 2002, PT. Warner Lambert Indonesia purchased raw material (Corn Starch Pregelatine Zed) from Halewood denominated in Euro for 1.613 Euro or Rp. 19.799.575 (when Exchange Rate Standard of March was Rp. 12.275), while the actual rate was Rp. 12.200 the payment would be on the next 40 days, when Exchange Rate Standard was Rp. 12.200

a. Inventory Rp. 19.799.575

Inventory In Transit Rp. 19.799.575

(Inventory and Inventory In Transit recorded at standard)

b. Inventory In transit Rp. 19.678.600

Account Payable Rp. 19.678.600

(Inventory In transit and Account Payable recorded actual)

c. Inventory In Transit Rp. 19.799.575

Inventory In Transit Rp. 19.678.600

Purchase Price Variance Rp. 120.975

And then, the settlement date, the journal will be as follow:

Account Payable Rp. 19.678.600

Cash Rp. 19.678.600

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For the control purposes, the price variance should be determined at the time of materials are received. If it is not computed and reported until the materials are requisitioned for production, the remedial action is difficult because the time of computation is so far removed from the time of purchase.

Variances are not end in themselves. Rather, management scrutinizeds variances in an attempt to answer questions such as " Why did a variances occur?"When should variances be investigated? Frequently, the answer is is based on subjective judgements, or rules of thumb. The most troublesome aspect of feedback is deciding when a variance (either vaforable on unfavorable) is significant enough to warrant management decision. For some items, a small deviation may prompt follow-up. For other items, a minimum Rupiahs amount or %, 10 % or 25% deviation from budget may be necessary before investigation commence. Variance analysis os subject to the same cost-benefit test as other phases of a control system. The trouble with the foregoing rules of thumb is that they are too frequently based on subjective assessment, guesses, or hunches. The field of statistics offers tool that can help decisions regarding variance analysis. Accounting system have traditionally implied that a standard is a single acceptable measure. Practically, accountants realize that a standard is a band or a range of possible acceptable outcomes. Consequently, accountants expect variances to fluctuate randomly within some normal limits.

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