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КУРСОВА РОБОТА

на тему:

«FINANCIAL REPORTING OF THE MULTINATIONAL CORPORATIONS»

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CONTENT

INTRODUCTION

Today's global economy is characterized by rapidly ongoing process of transnationalization, in which the main driving force behind the multinational corporations. Today, MNCs exist in many countries around the world and are the traders, investors, distributors of modern technologies and stimulants international labor migration. They largely determine the dynamics and structure, the level of competitiveness in the world market of goods and services, as well as the international movement of capital and the transfer of technology and knowledge. MNCs play a leading role in the internalization of production, expansion and deepening of production linkages between enterprises in different countries. Thus, MNC together with their foreign affiliates are increasingly active on the international scene, becoming recently the main force of the world economy.

In the way of forming stood all sectors of the economy to the national accounting system and financial reporting in line with international standards. In recent years, our country was carried out extensive work to reform the accounting and financial reporting. The purpose of financial reporting is to provide stakeholders complete and accurate information about the financial position, results of operations and changes in financial position of individual entrepreneurs and organizations.

These reports are of interest to suppliers, customers, creditors, current and potential investors, workers and ministries, public. The financial statements contain the information necessary to develop investment policy and decision-making on lending, estimates of future cash flows of the enterprise, assessment resources and liabilities of the enterprise activity and its governing bodies.

The **object** of paper are the multinationals as they occupy one of the dominant positions in the global economic system and financial statements. At the stage of the emergence of MNCs have been the subject of rapid economic discussions, and at the present stage of development of international economic relations occupy a dominant position are generally due to its economic power.

The **subject** of the research is the specificity of functioning, especially the activities of MNCs in international relations and accounting, as well as trends and their impact on world economic processes.

The **aim** of this coursepaper is to study the issue of improving financial reporting in multinational corporations.

For the purpose of course work the following objectives were established: to study the role and importance of MNC in the economy; the theoretical basis of financial statements; and the issue of improving financial reporting in multinational corporations.

Objectives of the course work led to its structure. The structure of the research consists of introduction, four questions, conclusion and list of references.

1. THE ROLE AND IMPORTANCE OF MNC IN THE ECONOMY

Transnational Corporations make use of a big deal of power in the globalized world economy. Many corporations are wealthier and more powerful than the states that request to control them. Through mergers and acquisitions corporation have been rising very fast and some of the major MNCs now have yearly profits greater than the GDPs of many low and medium income countries. This paper explores how MNCs control the worldwide financial system and employ their influence over worldwide policymaking.

A multinational company (MNC) has conveniences and other assets in at smallest amount one country other than its residence country. Such companies have offices or factories in different countries and generally have a federal head office where they organize global management. Extremely huge multinationals have budget that exceed those a lot of undersized countries [1].

Table 1

Difference Between MNC' s& TNC's

MNC's	TNC's
MNC have an global individuality as belonging to a particular residence country where they be headquartered	Transnational corporation is a sort of Multinational corporation
MNC' s have braches in their countries, whereas TNC' s have subsidiaries	Transnational corporation is more or less borderless in that view because they do not deem a particular country as their foundation
MNC has investment in other countries, but do not has harmonized product offerings in every country. It is more paying attention on adapting their goods and service to every individual local marketplace.	TNC, on the other hand, has invested in foreign operation, has a central corporate ability but offer decision-making. R&D and marketing powers to every individual foreign marketplace.

Source: completed by the author

A multinational corporation (MNC) is incorporated or unincorporated enterprise comprise parent enterprise and their foreign affiliates. A parent enterprise are defined as an enterprises that control assets of another entity in countries other than its residence country, typically by owning a equity capital stake [2].

Multinational corporation is from time to time referred to as transnational corporation.

Nearly all most important multinationals are either American, Japanese or Western European, such like Coca-Cola, Toshiba, Nike, Wal-Mart, Honda and BMW. Advocates of multinational say that they produce high-paying job and technically higher goods in country which otherwise would not has access of such opportunity or goods. On the other hand, critic say multinational has undue political power over government, use developing nation and make job losses in their own residence country [1].

Features of Multinational Corporations (MNCs):

(i) Huge Asset and Turnover:

Because of operation on a worldwide basis, MNCs have giant physical and monetary assets. This also consequences in massive turnover (sale) of MNC. In fact, in terms of asset and turnover, a lot of MNCs are larger than nationwide economies of more than a few countries.

(ii) Global Operations Through a Network of Branches:

MNCs have manufacture and promotion operations in more than a few countries; operating throughout a network of branches, subsidiary and affiliate in host countries.

(iii) Harmony of Control:

MNCs are characterized by harmony of control. MNCs organize industry activities of their branches in host countries through chief office situated in the residence country. Managements of branches work within the policy structure of the parent company.

(iv) Strong Economic Power:

MNCs are great economic entity. They keep on adding up to their economic power throughout steady mergers and acquisitions of company, in host countries.

(v) Highly developed and Sophisticated Technology:

Usually, a MNC has at its control advanced and sophisticated knowledge. It use capital concentrated technology into manufacturing and marketing.

(vi) Professional managing:

A MNC employ professionally skilled managers to handle giant funds, higher technology and global business operation.

(vii)Aggressive Promotion and Marketing:

MNCs spend giant sums of currency on promotion and marketing to safe global business. This is, maybe, the major strategy of winner of MNCs. Since of this strategy, they are able to trade anything products or services, they produce or generate.

(viii) Better Quality of Goods:

A MNC has to try to win on the globe level. It, therefore, have to pay individual attention on the quality of its goods [3].

MNC affiliates vary a lot in the multinational corporation system in terms of their spirited advantages and relative site in the structure [4]. MNC affiliate in change economy can be predictable to has a lower relative position, meaning that they mostly proceed as receivers of data coming predominantly from the headquarters. This is since of characteristics of industry, societal, and political environment in change economies, which might at rest be adverse. It might be further due to the detail that affiliate has been relatively recently established in these economy and it take time to build up long-term quality relations with home partners and to make particular knowledge. The maintain to this explanation can be establish in the learning of Subramanian and Watson [5].

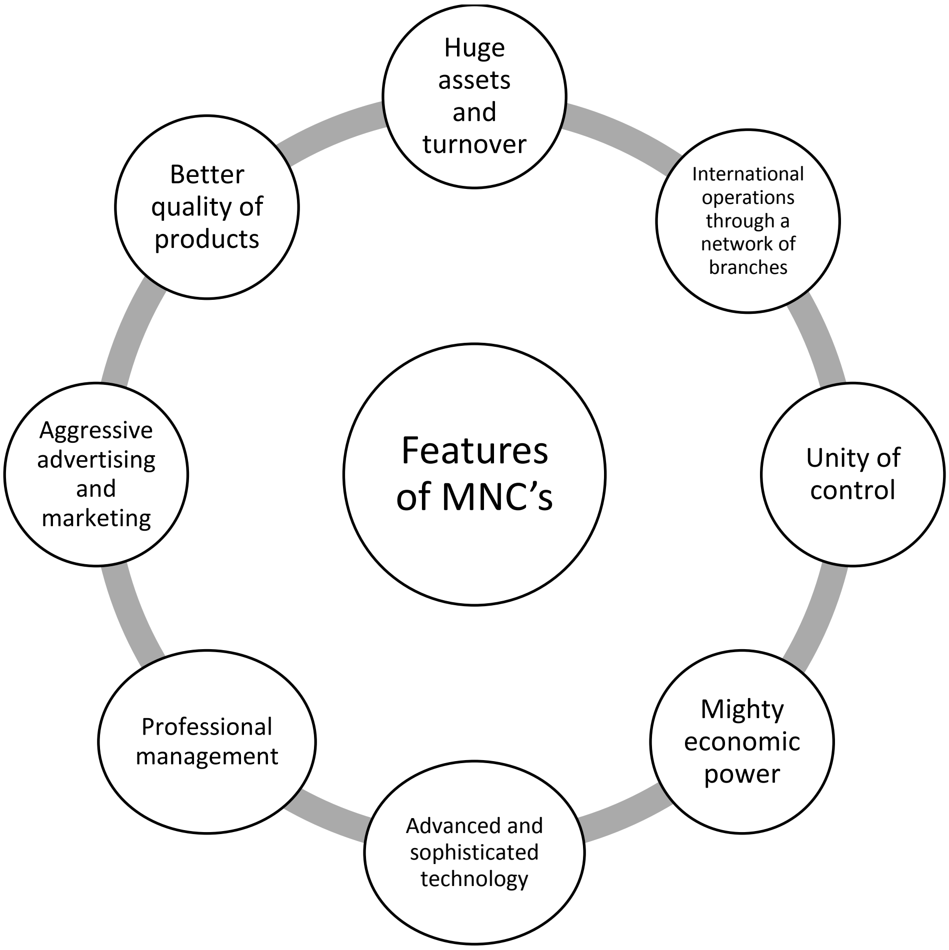

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Figure 1. Features of MNC’s – at a glance

They distinguish the interdependencies flanked by MNC organizational unit as being as follow: unidirectional (e.g. from the headquarters to the supplementary just), bi-directional (e.g. the headquarters to the supplementary and vice versa), or multidirectional (e.g. crossways multiple subsidiary). As a result, these authors characterize MNC sub-units in the next way: lone star, passive star, dominant star, or constellation star. Lone star is subsidiary characterized by no important relations with other sub-units and a dominant star ownership relation with the headquarters. Therefore, the coordination wants of this kind of subsidiary are self-effacing. Passive star is characterized by a narrow, modest degree of interdependence normally limited to headquarters. Dissimilar lone star that is more independent, passive star is interdependent, but just with the headquarters, as they collect inputs from the headquarters like goods or knowledge and return value like a repatriate profits. This outline describes the customary outlook of MNC.

According to this subsidiary outline, it can be predictable that coordination mechanism will be also traditional, lasting in the domain of financial statement to the headquarters. The other two subsidiary outlines are characterized by a top level and broader range of interdependence and it can be predictable to be found in developed market that provide the formation of specific data, which can be transfer to another units in the system. Dominant star is characterized through unidirectional power over other sub-units, with corporate headquarters. “These are subsidiaries that have developed a particular competence or skill that contributes to the global competitive advantage of the MNC as a whole” [6].

Constellation star is subsidiaries characterize by a large degree and broad range of multidirectional influence. Constellation star is in accordance with the current, network-based view of MNCs projected by Bartlett and Ghoshal[6]. On the basis of this small description of the typology of multinational corporations subsidiaries based on inter-dependencies by Subramaniam and Watson [8], we propose that affiliates in changeover economies are most possibly of the passive stars outline. An extra support for this proposal can be found in Moilanen [7]. This writer explores knowledge transfer flanked by a MNC Western chief office and its subsidiaries in the past Soviet Union by a focus on accounting related data. In the early on phases of industry establishment in a changeover economy, it was establish that the function of accounting was emphasize in sort to ensure acceptable reporting. This is in row with the conclusion of the Giacobbe’s new learning [10].

This writer suggests to the establishment stage of the subsidiary is connected with limited administrative plus operational information about subsidiary behavior, which as a result, to leads the intensive headquarters control. A tight monitoring of subsidiary’s act as well as the recruitment of suitable staff to deal with the international subsidiary are seen as manage mechanisms that diminish the challenge and risk connected with running the international subsidiary in a transition financial system. The accessible results of the study conducted in changeover economies point to those modern approaches in the MNC conceptualization strength not be sufficient in the investigate of different management issue of MNC affiliate in transition economy. That is, new views of MNC are urbanized and applicable in urbanized economies. But, the reality of transition economy in this ground turns to be rather different. The presented confirmation suggest that traditional view of MNC (at least linked to affiliates doing business in changeover economy) could be further appropriate. Further precisely, if data or network-based theory would be use as a theoretical backdrop to found research hypotheses, it would answer in evidence that might not be satisfactorily interpreted.

The novel perspective of MNC is based on the request of information and network theories. The knowledge-based hypothesis of MNC mostly deals with the character of data, transfer of data and determinants of these processes. Inside the knowledge-based theory, there is a big body of literature that deal with R&D units that are seen as the major sources of the facts creation. On the other side, the network conjecture and mainly the embededness idea provide some more proof on the other MNC foundation of information – knowledge formed and assimilated in the close up cooperation with home partnering organizations. These both approaches will be offered in the following text [11].

2. THE THEORETICAL BASIS OF FINANCIAL STATEMENTS. THE ESSENCE OF FINANCIAL REPORTING AND THE PRINCIPLES OF ITS ASSEMBLY

Modern accounting mechanism was known and worked before the advent of the first publication on the accounting issue. With the development of economic relations in MNCs as improved accounting add social structure, increasing its value as evidence property liability. Accounting concept is quite broad and multi-faceted, as it relates to the economic activity of people.

Financial Statements of MNC represent a formal record of the financial activities of an entity. These are written reports that quantify the financial strength, performance and liquidity of a company. Financial Statements reflect the financial effects of business transactions and events on the entity [12].

Financial statements of MNC are a collection of reports about an organization's financial results, financial condition, and cash flows. They are functional for the next reasons:

- To settle on the ability of a business to make cash, and the source and use of that cash.
- To settle on whether a business has the ability to pay back its debts.
- To follow financial results on a drift line to spot any looming productivity issues.
- To derive financial ratio from the statements that can show the condition of the big business.
- To explore the details of certain big business transactions, as outlined in the disclosure that accompany the statements [13].

Financial statements of multinational corporations usually contain of income statements, balance sheets, statements of retained earnings and cash flows. It is standard practice for businesses to present financial statements that adhere to generally accepted accounting principles (GAAP) to maintain continuity of information and presentation across international borders. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing or investing purposes [14].

The four main types of financial statements in MNC are:

1. Statement of Financial Position

Statement of Financial Position, also known as the Balance Sheet, present the financial position of an entity at a given date. It is comprised of the following three elements:

- Assets: Something a business owns or controls (e.g. cash, inventory, plant and machinery, etc);
- Liabilities: Something a business owes to someone (e.g. creditors, bank loans, etc);
- Equity: What the business owes to its owners. This represents the amount of capital that remains in the business after its assets are used to pay off its outstanding liabilities. Equity therefore represents the difference between the assets and liabilities.

2. Income Statement

Income Statement, also known as the Profit and Loss Statement, reports the company's financial performance in terms of net profit or loss over a specified period. Income Statement is composed of the following two elements:

- Income: What the business has earned over a period (e.g. sales revenue, dividend income, etc);
- Expense: The cost incurred by the business over a period (e.g. salaries and wages, depreciation, rental charges, etc).

Net profit or loss is arrived by deducting expenses from income.

3. Cash Flow Statement

Cash Flow Statement, presents the movement in cash and bank balances over a period. The movement in cash flows is classified into the following segments:

- Operating Activities: Represents the cash flow from primary activities of a business;

– Investing Activities: Represents cash flow from the purchase and sale of assets other than inventories (e.g. purchase of a factory plant);

– Financing Activities: Represents cash flow generated or spent on raising and repaying share capital and debt together with the payments of interest and dividends.

4. Statement of Changes in Equity

Statement of Changes in Equity, also known as the *Statement of Retained Earnings*, details the movement in owners' equity over a period. The movement in owners' equity is derived from the following components:

– Net Profit or loss during the period as reported in the income statement;

– Share capital issued or repaid during the period;

– Dividend payments;

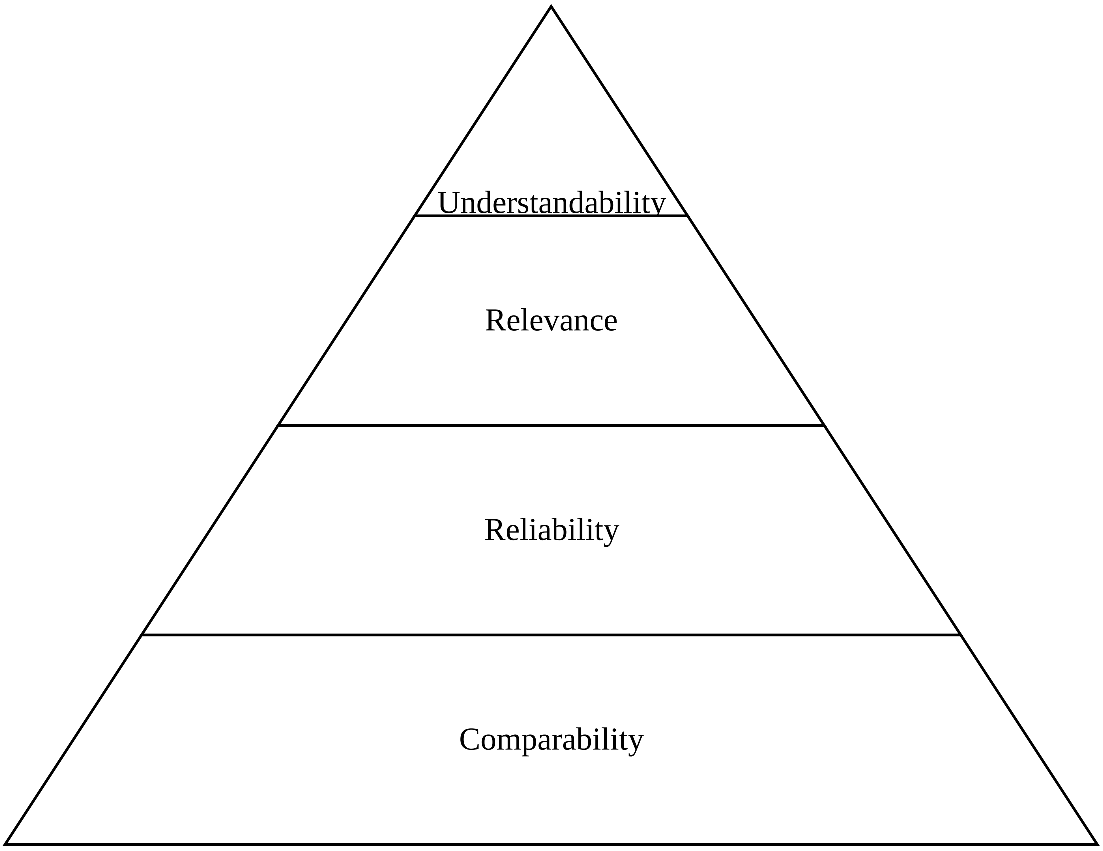
– Gains or losses recognized directly in equity (e.g. revaluation surpluses);

– Effects of a change in accounting policy or correction of accounting error [12].

If a business plans in MNCs is to issue financial statements to outside users (such as investors or lenders), the financial statements should be formatted in accordance with one of the major accounting frameworks. These frameworks allow for some leeway in how financial statements can be structured, so statements issued by different firms even in the same industry are likely to have somewhat different appearances.

If financial statements in multinational companies are issued strictly for internal use, there are no guidelines, other than common usage, for how the statements are to be presented.

At the most minimal levels, MNCs are expected to issue an income statement and balance sheet to document its monthly results and ending financial condition. The full set of financial statements of MNCs are expected when a business is reporting the results for a full fiscal year, or when a publicly-held business is reporting the results of its fiscal quarters.



Source: completed by the author

Figure 2. Qualitative characteristics of financial statements

Understandability. The information must be readily understandable to users of the financial statements. This means that information must be clearly presented, with additional information supplied in the supporting footnotes as needed to assist in clarification.

Relevance. The information must be relevant to the needs of the users, which is the case when the information influences the economic decisions of users. This may involve reporting particularly relevant information, or information whose omission or misstatement could influence the economic decisions of users.

Reliability. The information must be free of material error and bias, and not misleading. Thus, the information should faithfully represent transactions and other events, reflect the underlying substance of events, and prudently represent estimates and uncertainties through proper disclosure.

Comparability. The information must be comparable to the financial information presented for other accounting periods, so that users can identify trends in the performance and financial position of the reporting entity [15].

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions (IASB Framework).

Financial Statements of MNCs provide useful information to a wide range of users:

Managers require Financial Statements to manage the affairs of the company by assessing its financial performance and position and taking important business decisions.

Shareholders use Financial Statements to assess the risk and return of their investment in the company and take investment decisions based on their analysis.

Prospective Investors need Financial Statements to assess the viability of investing in a company. Investors may predict future dividends based on the profits disclosed in the Financial Statements. Furthermore, risks associated with the investment may be gauged from the Financial Statements. For instance, fluctuating profits indicate higher risk. Therefore, Financial Statements provide a basis for the investment decisions of potential investors.

Financial Institutions (e.g. banks) use Financial Statements to decide whether to grant a loan or credit to a business. Financial institutions assess the financial health of a business to determine the probability of a bad loan. Any decision to lend must be supported by a sufficient asset base and liquidity.

Suppliers need Financial Statements to assess the credit worthiness of a business and ascertain whether to supply goods on credit. Suppliers need to know if they will be repaid. Terms of credit are set according to the assessment of their customers' financial health.

Customers use Financial Statements to assess whether a supplier has the resources to ensure the steady supply of goods in the future. This is especially vital where a customer is dependent on a supplier for a specialized component.

Employees use Financial Statements for assessing the company's profitability and its consequence on their future remuneration and job security.

Competitors compare their performance with rival companies to learn and develop strategies to improve their competitiveness.

General Public may be interested in the effects of a company on the economy, environment and the local community.

Governments require Financial Statements to determine the correctness of tax declared in the tax returns. Government also keeps track of economic progress through analysis of Financial Statements of businesses from different sectors of the economy [16].

Although the accounting treatments and provisions regarding presentations of different important transactions in the financial statements is dealt separate accounting standards. However, in the absence of any specific guidance, provisions of IASB Framework and IAS 1 provides overall guidance for preparation and presentation of financial statements.

Before we discuss both documents lets clear out few things so that we don't get confuse later.

– IASB Framework provides general guidance about the preparation and presentation of financial statements whereas any accounting standard provides provisions which are more than guidance and are must to be followed. That is why in the framework it has been written that in case there is a conflict between the provisions of framework and standards then the provisions of standards will overrule.

– The words of underlying assumption is used only in IASB Framework. That is why many accountants take only the assumptions stated in the framework as fundamental accounting assumptions regarding financial statements. However, considerable number of accountants and auditors believe that features of financial statements as stated under IAS 1 are an extension of underlying assumptions and thus count them in assumptions as well.

But I prefer that we go with the first approach as sometimes it is better not to assume about anything and stick with what documents say. So this is what I consider to be the correct approach:

- The underlying assumptions are the assumptions as stated under IASB Framework.
- The features of financial statements as stated under IAS 1 are better to be called as fundamental principles of preparation and presentation of financial statements.

In other words underlying assumptions are one of the fundamental principles but not all of the fundamental principles are underlying assumptions. Read on the get more clear on this matter.

According to IASB Framework the underlying assumptions (which can also be called as fundamental assumptions for preparation and presentation of financial statements) are:

- Going Concern;
- Accrual Basis of accounting.

According to IAS 1 general features of financial statements (which can also be called as fundamental principles for preparation and presentation of financial statements) are:

- Fair presentation and compliance with IFRSs;
- Going concern;
- Accrual basis of accounting;
- Materiality anda ggregation;
- Offsetting;
- Reporting annually;
- Disclosure of comparative information;
- Consistency of presentation [17].

At regular period public companies must prepare documents called financial statements. Financial statements of MNCs show the financial performance of a company. They are used for both internal-, and external purposes. When they are used internally, the management and sometimes the employees use it for their own information. Managers use it to plan ahead and set goals for upcoming periods. When they use the financial statements that were published, the management can compare them with their internally used financial statements. They can also use their own and other enterprises' financial statements for comparison with macro-economic data and forecasts, as well as to the market and industry in which they operate in.

Financial statements of MNCs are useful, because they show the financial condition of a company at a given period. There are many types of financial statements uses and purposes, measuring different financial aspects of the company. They can be used for both internal, and external uses [18].

3. CAUSES AND STAGES OF DEVELOPMENT OF MULTINATIONALS IN EUROPE

Since the fall of the Iron Curtain in 1989, the liberalization of the political and economic systems in Central and Eastern Europe (CEE) has opened a huge new market for foreign firms. In particular, the enormous growth potential of the region prompted a rush into the emerging markets of this region. While the motivation to enter these markets was clearly understood, the choice of the adequate marketing approach turned out to be more complicated. The foreign firms almost faced a “tabula rasa”, a regional market that had been isolated from the modern Western marketing and consumption culture for more than four decades. Had management followed classic international marketing theory, it would have leaned towards a more localized approach given the huge differential in purchasing power and market development between Western and Eastern Europe.

MNCs not only integrate, through their internationalization and activity location strategies, local suppliers and industries into the world economy, they also integrate local markets. In particular, in the transitional markets their role as change agents is very obvious: foreign MNCs shape, stimulate and create markets through immense investments, the establishment of supply and distribution networks, the transfer of marketing technology and know-how, the introduction of new brands as well as massive advertising and promotion efforts. The opening up of formerly for Western brands inaccessible CEE markets is predestined for a retrospective study to explore how the markets of the region developed and what market structures emerged since then. The analysis of actual market data could provide an answer to this market globalization controversy – at least in the context of consumer goods in CEE [19].

Causes of formation and development of MNC are very diverse, but they all to some extent are related to imperfect competition, barriers to international trade, exchange control, significant transportation costs, differences in the tax laws of different countries [20].

The first MNC’s prototype appeared in XVI-XVII centuries during the colonial development of the New World. Thus, the founders of the British East India Company formed in 1600 for the "development" riches of India and operated until 1858, were not only British merchants, but also Dutch merchants and bankers of Germany. These colonial companies were engaged exclusively in trade, but the organization of production did not play a decisive role in the development of management. They are considered the precursors to "real" MNC, which appeared in the late nineteenth century. When the change came, free active development competition of large companies-monopolies began to make massive capital outflow [21, p.93].

Transnational corporations in their development passed several stages. The activities of the first generation of multinationals (from the birth in the late XIX century till the First World War) were associated mainly with the extraction of raw materials to colonial countries of Asia, Africa, Latin America and their processing in the metropolis. On the one hand, the host countries lacked the necessary personnel training, the technology has not yet reached a high degree of automation. On the other hand, we have to consider the impact of MNCs in globalization activities and the needs of the MNC underlying organizational and technological innovations capable of taking full advantage of ICT and promote their proliferation and development. Multinationals are active rather than a passive participant in globalization processes [22].

The share of MNCs owned by the largest number of international transactions MNC that could plan, organize and monitor cross-border activities with a possible negative impact of new production capacity on the ability to maintain an efficient level of capacity utilization at "home" business firm was growing. Thus, the export of capital from Britain averaged 7% of national income. Overall, the share to England in 1914 accounted for over 50% of the exported international capital. Foreign investments were distributed as follows: 40% was invested in railroads, 30% - in government and municipal loans. During this period the subjects of transnationalization were usually associations of firms from different countries (international cartels) that divided the markets and conducted coordinated price policy.

The second generation MNC has developed between the two world wars and was engaged in the production of military equipment from leading European countries, America and Japan. During this period the investment trend began to change. Western Europe, especially Britain, lost their positions of creditors and exporters of capital and American capital penetrated to a greater extent in Western Europe. A characteristic feature is that 25% of the total direct investment already made up.

The third generation of MNCs began to develop after the Second World War and the collapse of the colonial system (1945-1960). This period is connected with the growing role of foreign production units, not only in developing countries but also in developed ones. Overseas departments began to specialize mainly in manufacturing the same products previously produced in "native country". More and more affiliates of MNCs reorganized themselves to service local demand and local markets. The national firms large enough to conduct an independent foreign economic strategy became actors the arena of world economy.

During 1970-1980 in terms of acceleration of scientific and technological advance and economic ties due to growing competition in the global market, MNC sevolved to the fourth generation. The development of transport and information communication contributed to the realization of their opportunities. The company broke up production process and place the individual processes in those countries where national inputs were cheaper. This phase is characterized by a large number of mergers and acquisitions that led to the concentration of production and equity in MNC-leaders in large international business [23].

The fifth generation of MNCs began to form at the beginning of XXI century in terms of accelerating the process of economic integration. Based on modern science and innovative business, MNCs are the fifth generation of the main generators and distributors of scientific ideas and concepts. The main feature of MNC is to create networks of production and sales on a global scale.

Table 2

Historical stages of TNC development

№	Generation of TNC	Period of development	Features of development
1	First generation	The end of the XIX century. - Before the First World War	Extraction of raw materials in the colonial countries of Asia, Africa, Latin America and its processing in the metropolis
2	Second generation	The period between the two world wars	Production of military technology
3	Third generation	After the Second World War and the collapse of the colonial system (1945-1960)	Strengthening the impact of foreign production units both in developing countries and in developed ones
4	Fifth generation	From 1970-1980 till the beginning of the XXI century	The concentration of production and capital in TNC-leaders in large international business
5	Sixth generation	Since the beginning of XXI century till today	Networking production and sales on a global scale

Source: compiled by the author

The number of foreign affiliates of MNs is growing much faster than the in the number of MNCs. The production costs play the main role in the selection of sites for the subsidiaries, as they are often lower in developing countries; products are sold in the countries where higher demand (mainly in developed countries).

At this stage, multinational corporations, in pursuit of their private economic interests together represent a synthesis of sub national and supranational interests, intensifying huge financial capital and tend to use the state apparatus of individual countries and business interests of domestic corporations in their interests. This is the basic contradiction in interests between MNCs and a particular state. Being of dialectical nature and takes a variety of forms - from direct confrontation to quite constructive and mutually beneficial cooperation.

The purpose of the release of MNC on foreign markets [24]:

– ensure potential, access to new, maintenance and development of existing markets;

– avoid import barriers;

– improve the competitiveness of products;

– low wages;

– longer time;

– low taxation;

– simplified administrative procedures;

– long life equipment;

– lack of administrative regulation of violation of environmental regulations;

– making environmentally hazardous industries, in the absence of new legislation;

– outdated standards for product quality;

– imperfect market mechanism in the implementation of ownership of technology, production experience and other so-called "intangible assets";

– additional opportunities to improve efficiency and enhance its competitiveness through access to the resources of foreign countries;

– proximity to consumers branches of foreign firms and the possibility of obtaining information about market prospects and competitive potential of host countryfirms;

– opportunity to take advantage of the state, including tax policy in different countries, the difference in exchange rates, etc.

– ability to continue technologies’ and products’ life cycle;

– using equity firm enables overcoming various kinds of obstacles to the introduction on the market of a country through exports.

These tasks MNC effectively implemented in all markets over time. If we analyze the dynamic creation of MNCs and their units, we can see their number of growing from 2008. The number of MNCs in the world did not increase significantly, however, the number of units confirm the interest of the company in entering new foreign markets increased. Thus, MNC «Deutsche Post» is represented in 111 countries. Of course, the output of any multinational corporation into a new market should be agreed by the government of the country.

The advantages of MNCs, having businesses in a host country, include [25]:

1. Inflow of capital;
2. Involvement of technologies;
3. Development of production
4. Employment;
5. Obtaining access to additional sources of production;
6. Avoiding application of customs barriers to capital;
7. Overcoming the limitations of basing the domestic market, increasing the size and scope of enterprise products to the most of income levels;
8. Use of differences in the economic situation of the home country due to:

– rapid implementation of economic maneuvers of concentration of production in the countries with cheap raw materials and low wages;

– obtaining higher profits in countries with low taxation;

– optimizing production and marketing programs to the specific conditions of national markets;

– manipulating balance sheets of foreign subsidiaries with the subordination of their interest income and expenses policy of central headquarters.

MNC do not seek to do investments in new investment projects. In addition, these companies are interested in the most profitable sectors. They do not seek to make investments into the sectors where their payback periods will be long enough. The only country in the world dictating the conditions and scope for FDI – is China [26, p. 43].

During the recent years, MNC of newly industrialized countries are actively developing business on the global market. The structure of industry of MNC is wide enough: 60% of international companies that are employed in manufacturing (especially they specialize in electronics, automotive, chemical and pharmaceutical industry), 37% are engaged in services and 3% are engaged in mining and agriculture.

The standard of living is a kind of indicator of social processes. Workforce, creativity, physical and spiritual abilities are essential to an employee's rights. It is not surprising that a number of market leading nations of the world have embarked on building social market economy. National strategy to support information-intensive, innovative employment sectors takes an important place for the development of the world.

MNC activity in recent years is significantly influenced by the differentiation of products, knowledge-based production, concentration of distributional channels, potential pricing transfer, government, growth of technological possibilities, value of transport and communications costs, etc. The result of the interaction of national economies and MNCs is defined as the condition of the cross-border operations in certain sectors, and specific features MNCs that implement investment projects [27].

4. THE ISSUE OF IMPROVING FINANCIAL REPORTING IN MULTINATIONAL CORPORATIONS

Determining the importance of transnational corporations for the world economy is neither easy nor obvious.

The aim of this paper is to present the world's largest transnational corporations and to indicate the role that TNCs play in the global economy. That is why the paper has been divided into two main parts. The first part will demonstrate a leading group of TNC-type organizations, which have been classified in terms of their:

– revenues, which made it possible to define the largest "trading powers";

– market capitalization value, which made it possible to define the "capital powers";

– TNC foreign assets, which made it possible to define a group of companies with most capital invested outside their home country.

World economic power is concentrated in the "hands" top 100 MNCs (such as Microsoft, General Electric, Exxon Mobil, Wall Mart Stores, Citigroup, Johnson & Johnson, Royal Dutch / Shell, BP, IBM, Ford, Nestle, Phillip Morris). The market capitalization of some TNCs exceeds 500 billion. US, and the annual volume of their sales are 150-200 billion dollars.

Net income of any of MNCs is equal to annual budget of Ukraine, and the volume of commodity cash flow often exceeds the GDP of several countries, taken together according to the ranking of the 500 largest transnational companies in the world in 2009. The highest position is occupied by Royal Dutch Shell. Despite the crisis of 2013 it has increased its income by a third - to $ 458.4 billion.

Generally, according to UNCTAD, there are about 78 thousand of transnational corporations with 777 thousand foreign units in the world. Over the past 30 years the number of MNCs have increased by 9 (7 thousand of such firms were registered in 1970, compared to 24 thousand registered in 1990, and 78 thousand of MNCs registered in 2009) with more than 74 million of employees involved.

Table 3

The Global Top 10 Non-Financial Trans-National Corporations MNCs) ranked by Foreign Assets as of 2013 in Europe

№	Corporation	Country	Industry	Foreign Assets (in millions of USD)	Total Assets (in millions of USD)
1.	Royal Dutch Shell plc	United Kingdom	Petroleum expl./ref./distr.	301 898	357 512
2.	Total SA	France	Petroleum expl./ref./distr.	226 717	238 870
3.	BP plc	United Kingdom	Petroleum expl./ref./distr.	202 899	305 690
4.	Vodafone Group Plc	United Kingdom	Telecommunications	182 837	202 763
5.	Volkswagen Group	Germany	Motor vehicles	176 656	446 555
6.	EniSpA	Italy	Petroleum expl./ref./distr.	141 021	190 125
7.	EnelSpA	Italy	Electricity, gas and water	140 396	226 006
8.	Glencore Xstrata PLC	Switzerland	Mining & quarrying	135 080	154 932
9.	Anheuser-Busch InBev NV	Belgium	Food, beverages and tobacco	134 549	141 666
10.	EDF SA	France	Utilities (Electricity, gas and water)	130 161	353 574

Source: complete by the author on the data presented by UNCTAD

Thus the territory of the industrialized countries comprises more than 80% of parent companies and about 33% of affiliated ones in developing countries, respectively 19.5 and nearly 50 in the former socialist countries - about 0.5 and 17% [28].

The most powerful multinational corporations located in the USA, European Union and Japan. However, the increasing development of MNC attainnewly industrialized countries such as South Korea, Brazil, Mexico, Hong Kong and China. Boston Consulting Group (BCG) conducted a study which was based on the rating of one hundred most rapidly growing companies (100 Global Challengers) from 16 developing countries. Average annual growth in revenues and operating profit of these companies have amounted to 18% in the period from 2000 to 2009. In comparison, revenues of MNCs from developed countries have increased during this period to 6% per year [29, p. 186].

Among the 100 top companies 33 are located in China, 20 in India, 13 in Brazil, 7 in Mexico, 6 in Russia. Today, MNCs control over 57% of world industrial output, 69% of international trade, more than 81% of patents and licenses for new equipment, technology and know-how, almost 90% of foreign direct investment.

As a matter of fact the activities of MNCs are widely diversified. For example, every of the 500 largest US multinationals has on average 11 units within an industry and the most powerful cover 30-50 branches. Within the top 100 diversified industrial companies the UK - 96, Germany - 90, France - 84, Germany - 78. According to UNCTAD the industrial structure of MNC is as follows: 60% of the companies are engaged in production; 37% deal with services; 3% refer to mining industry and agriculture. Total foreign exchange reserves of MNC exceed the aggregate reserves of central banks. Therefore, moving only 1-2% of the money mass that are in their possession may change the parity of national currencies [30].

Foreign investment in the economy is an active way to stimulate demand for domestic products. Firstly, it is achieved by creating new markets abroad; secondly, the part of MNC exports is always addressed to their foreign branches, and the guaranteed share covers 30% of exports in Canada, Germany, France, Sweden, about 50% of US exports; thirdly, the investments allow corporations to avoid tariff and non-tariff barriers of the receiving state. The strategy of MNC is based on integrative approach that involves optimization not only every single link, but the union as a whole.

Governments in some countries own major stakes in private companies. This type of state ownership is not only limited to developing countries but is prevalent in developed countries as well [31].

Table 4

The Top 10 Non-Financial State-Owned Multi-National Companies, ranked by foreign assets, 2013

(Millions of dollars and number of employees**)**

SO-MNE	Home economy	Industry	Assets		Sales		Employment		Transantionally index
			Foreign	Total	Foreign	Total	Foreign	Total	
Volkswagen Group	Germany	Motor vehicles	176656	446555	72133	118561	73000	147199	50
EniSpA	Italy	Petroleum	141021	190125	211488	261560	317800	572800	70
EnelSpA	Italy	Utilities (electricity, gas and water)	140396	226006	109886	152313	56509	83887	67
EFD SA	France	Utilities (electricity, gas and water)	130161	353574	61867	106924	37125	71394	49
GDF Suez	France	Utilities(electricity, gas and water)	121402	219759	46978	100364	28975	158467	40
Deutsche Telekom AG	Germany	Telecommunications	120 350	162671	50049	79835	111953	228596	62
CITIC Group	China	Diversified	97739	703666	11127	60586	25285	125215	17
Statoil ASA	Norway	Petroleum	78185	144741	23953	105446	3033	23413	30
Airbus Group NV	France	Aircraft	77614	128474	72525	78672	89551	144061	72
General Motors Co	USA	Motor vehicles	70074	166344	56900	155427	104000	219000	42

Source: World Investment Report 2015, UNCTAD

Volkswagen(VLKAY) is the number one state-owned multi-national Enterprise(SO-MNE) in terms of foreign assets. The German state of Lower Saxony is a large shareholder in the company with a stake of 20%.

Current voting rights distribution (as at December 31, 2014): Porsche Automobil Holding SE, Stuttgart – 50.73%, State of Lower Saxony, Hanover – 20.00%, Qatar Holding – 17.00%, others – 12.30%.

Currently Volkswagen is in trouble in the US and other countries due to cheating on emission tests. In the past two days billions in market cap haven been wiped out as the stock plummeted. Nearly half of its total workforce is in foreign countries. Europe and China are the two largest markets for the company in terms of sales.

France has large stakes in the utilities of EDF (ECIFY) and GDF Suez(GDFZY).

The US used be the largest shareholder in General Motors(GM) when it bailed out the auto maker from collapse, but a couple of years ago the US sold its last remaining stake and is no longer a shareholder in GM. At the time of the bailout GM was aptly nicknamed the "Government Motors" [32].

Table 5

The world's top 10 TNCs, ranked by revenues, 2013 ($ Millions)

Corporation	**Home economy**	**Revenues**	**Profits**
Wal-Mart Stores	USA	476,294	16,022
Royal Dutch Shell	UK/Netherlands	459,599	16,371
Sinopec Group	China	457,201	8,932
China National Petroleum	China	432,008	18,505
Exxon Mobil	USA	407,666	32,580
BP	UK	396,217	23,451
State Grid	China	333,387	7,982
Volkswagen	Germany	261,539	12,072
Toyota Motor	Japan	256,454	18,198
Glencore	Switzerland	232,694	-7,402

Source: completed by the author on the data presented by Fortune Global 500 (2014)

Since 1994 the Fortune magazine has presented an annual classification of enterprises according to their value of revenue ranking 500 corporations – the biggest global trading powers.In 2013, these 500 largest companies had a total revenue of $31.1 trillion. Their profit had increased by 27%, reaching nearly$2 trillion. There were 95 Chinese and 128 US corporations on that list, making the United States the world leader. The leader on the list was a United States corporation – Wal-Mart stores – with the total revenue of $476,294 million and the net profit $16,022 million. The top ten also included another US company, one corporation from Japan, four from Western Europe and three from China.

Table 6

The world's top 10 TNCs, ranked by market capitalization, 2014 ($ Billions)

Corporation	Home economy	31 March 2014		31 March 2009	
		Rank	Market Capitalization	Rank	Market Capitalization
Apple	USA	1	469	33	94
Exxon Mobile	USA	2	416	1	337
Google	USA	3	409	22	110
Microsoft	USA	4	318	6	163
Berkshire Hathaway	USA	5	286	12	134
Roche Holding	Switzerland	6	266	18	119
Johnson&Johnson	USA	7	261	8	145
General Electric	USA	8	356	24	107
Wells Fargo& Co.	USA	9	244	55	60
Nestle	Switzerlands	10	244	15	129

Source: completed by the author on the data presented by PwC(2014), Global top 100 Companies by Market Capitalization

This TNC classification according to their market capitalization value is prepared by PwC. It includes 100 of the most valuable companies in the world. Market capitalization of all the companies included in the 2014 ranking amounted to $15,020 billion ($8,403 billion in 2009), of which only 29 companies had a market value of less than $100 billion. The list included 47 TNCs from the United

States, 18 from the Euro zone and 8 from China/ Hong Kong (PwC 2014). A US corporation Apple topped the list with a market capitalization value of 469$ billion. Among the first top 10 TNCs with the largest market value there were as many as eight companies from the United Stated and two from Switzerland.

Classification of transnational corporations with the largest foreign assets includes the most significant and specific attribute of TNC business activity, which, according to the researchers, is the capital invested outside their home country. Classification of transnational corporations with the largest foreign assets includes the most significant and specific attribute of TNC business activity, which, according to the researchers, is the capital invested outside their home country.The list of the world's 100 largest companies with the largest assets abroad is prepared by the UNCTAD. As of the end of 2013, most TNCs were from the United States. There were a total of 72 corporations from the five Triad Countries (USA, Japan, Germany, France, UK). The total revenue of foreign assets of the 100 largest non-financial TNCs amounted to $8,103,862 millions (UNCTAD 2014a). The General Electric Corporation from the USA topped the list with 331,160 million. An average rate of transnationalisation of the 100 TNCs included in the 2013 UNCTAD raking was 64,5% with Nestle from Switzerland having the highest rate at 97,1% and ranking 15th in the list [33].

CONCLUSIONS

Although the concept of MNCs is relatively young (mass spread of this form of international monopoly has begun only since the late 50's.), the impact of their activities does not circumvent this issue. Despite considerable achievements, almost no growth MNC slows. They get into all sectors of the economy.

MNC reflect a global economy in which the movement of capital and technology have gained high mobility. It helps transforming the activities of MNCs in the world in general, where the individual parts are functionally interdependent, and where there are new tendencies and laws of development.

MNC carry out economic, financial, trade, technological improvements and bring political and social interaction between countries onto a new stage. The activities of MNCs fundamentally change the picture of the world and, therefore, the processes occurring in modern economic relations. There are various conflicting approaches to the evaluation of these giant economic corporations which do not take into account national boundaries. The study shows that multinational corporations cannot be evaluated only negatively or positively. In each case they have some advantages and disadvantages.

Positive features of MNCs include:

1. The increase in tax revenues of the country where the MNC’sbranch is located.

2. Continuous progress of MNCs (transnational companies spend on research more costs than individual states).

The negative features of MNCs include:

1. MNCs often try to "bypass" laws (hiding profits, export of capital from one country to another, etc.).

2. They establish monopoly prices that allow enormous profits at the expense of the consumer.

3. They dictate only of their own conditions, regardless of the interests of the particular state.

Currently, annual foreign investment by MNC significantly exceeds the volume of interstate credit. MNC's investments are now in every sector of the world's economy.

International experience confirms the viability and effectiveness of combining capital within multinational corporations to accelerate the turnover of funds, reduce of costs through the development of transnational corporations inside, charges netting to increase the proportion of cash resources and mobility redistribution, signing important agreements. The emergence of transnational corporations is not only a logical step in the development of international economic relations, but also a necessary step in reorganization of industrial structure.

However, "Practice is the criterion of truth", and in practice multinationals certainly proved their right to exist. Therefore, we must hope that on the thorny path of integration of Europe into the world economy and in international economic relations, MNC will act as the catalyst in overcoming the internal crisis and implementing of foreign economic reforms.

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