

Fourth edition

# FINANCIAL ACCOUNTING

## An International Introduction

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with an Appendix on Double-entry Bookkeeping  
by Anne Ullathorne

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## Foreword to the first edition

For many years Professor Christopher Nobes and I have worked together as the two British representatives on the Board of the International Accounting Standards Committee. He and I have argued in many fora for the notion that there should be one single set of high quality worldwide standards so that a transaction occurring in Stuttgart, Sheffield, Seattle or Sydney should be treated in exactly the same way. That is not the case at present.

In a book recently published by Professor Christopher Nobes and David Cairns, 'The Convergence Handbook', they outlined the existing differences between British and International Accounting Standards. The intention of the book and the request by the UK's Accounting Standards Board for its production was to eliminate these differences. It is particularly important this should be done over the next five years as the European Commission has stated its intention that all consolidated statements of Listed Companies in the European Union should comply with International Accounting Standards by 2005. Clearly British Standards will have to change, although as British Standards themselves are of high quality it is very likely that some International Standards will also change.

To meet this challenge and to ensure that all countries have the same accounting standards, the International Accounting Standards Committee has been reconstituted with effect from 2001 to form a virtually full-time International Accounting Standards Board whose main mission is to seek convergence of accounting standards throughout the world.

This book by my friends, David Alexander and Christopher Nobes, is therefore particularly timely. It is based on a background in the European Union. It is written extremely clearly. (The real mark of a teacher is not to complicate but to simplify and the authors have certainly done that.) It is unusual in that it takes as its base not one country's standards but International Accounting Standards, which I firmly believe are going to be the worldwide requirements of the future.

The book will be of interest not only to the beginner but to those who wish to understand the thrust of International Accounting Standards. The authors make clear that accounting is still in many ways a primitive subject and is in a period of change, removing the most irrelevant aspects of the historical cost model and replacing them with accounting for fair values. Those coming into accounting now are going to see huge changes in the first few years of their careers as many of the ideas promulgated by academics many years ago become professional practice and as each country's national standards are changed to converge with the international consensus.

I enjoyed reading this book and I am sure that its many readers will also. I congratulate the authors for their foresight in producing such an excellent book and wish them well.

January 2001

SIR DAVID TWEEDIE  
*Chairman, International Accounting Standards Board*



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# Preface

This is the fourth edition of our book that is designed as an introductory text in financial accounting. What sets it apart from many other books with that basic aim is that this book is not set in any one national context. Consequently, instead of references to national laws, standards or practices, the main reference point is International Financial Reporting Standards (IFRS).

Nevertheless, real entities operate in real countries even where they follow IFRS, and so such entities also operate within national laws, tax systems, financial cultures, etc. One of the backgrounds chosen in this book is the European Union (EU) and the wider European Economic Area (EEA). Where useful, we refer to the rules or practices of particular European countries or companies. However, we also take examples from elsewhere, e.g. Australia.

This book is intended for those with little or no previous knowledge of financial accounting. It might be particularly appropriate for the following types of financial accounting courses taught in English at the undergraduate or post-graduate (e.g. MBA) level:

- courses in any country in the EU (or EEA), given the increasing use of IFRS by companies including the compulsory use for listed companies' consolidated statements;
- courses outside the EU where IFRS are a relevant reference point, e.g. in Australia, New Zealand, Singapore and other parts of the (British) Commonwealth;
- courses in China or other countries where standards have been converged with IFRS;
- courses anywhere in the world with a mixture of students from several different countries.

Depending on the objectives of teachers and students, stress (or lack of it) might be placed on particular parts of this book. For example, it would be possible to precede or accompany a course based on this book with an extensive examination of double-entry bookkeeping, such that Appendix A is unnecessary. Or, on some courses, there might not be space or appetite for coverage of issues such as foreign currency translation (Chapter 15) or accounting for price changes (Chapter 16).

This edition is updated for the extensive changes of the three years since writing the third edition. In writing this book we have, of course, made use of our experience over many years of writing and teaching in an international context. Thus, in some places we have adapted and updated material that we have used elsewhere in more specialist books to which the intended readers of this text would not have easy access. We have tried to remove British biases, but we may not have been fully successful and we apologize to readers who can still detect some.

There are four appendices, which we hope readers will find useful during and after a course based on this book. Appendix A is a substantial treatment of double-entry bookkeeping. Appendices B and C summarize the requirements of IFRS and

the EU Fourth Directive respectively. Appendix D provides outline feedback to the first two of each chapter's closing exercises. Feedback on the other exercises is given in an Instructor's Manual that is available electronically via the Companion Website at [www.pearsoned.co.uk/alexander](http://www.pearsoned.co.uk/alexander). The manual also contains other material to assist lecturers. This book ends with a glossary and an index.

In preparing the first edition, we were greatly assisted by comments from an apparently tireless team of reviewers, listed immediately hereafter. Certain reviewers have commented further this time. We are also grateful for much help from colleagues at Pearson. Despite all this help, there may be errors and omissions in our book, and for this we must be debited (in your books).

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*University of Birmingham*

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*Royal Holloway, University of London*

## Reviewers

This book has benefited very much from the advice and critical evaluation of the following reviewers, whose comments throughout the preparation of various editions are greatly appreciated:

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## Figures

Figure 5.2 adapted from A judgemental international classification of financial reporting practices, *Journal of Business Finance and Accounting*, Spring (Nobes, C. 1983); Figure 5.3 adapted from Towards a general model of the reasons for international differences in financial reporting, *Abacus*, Vol. 34, No. 2 (Nobes, C. 1998); Figures 6.1, 6.2, 12.1, 13.6 adapted from *Bayer Annual Report 2008*; Figures 7.5, 8.7 adapted from *Marks and Spencer plc Annual Report 2009*; Figure 8.5 from *CEPSA Consolidated Statement of Income for the Year Ended 31 December 1998*; Figures 18.1, 18.2 from *GlaxoSmithKline plc Annual Report 2005*.

## Tables

Table 4.2 adapted from *Plan Comptable Général* (Conseil National de la Comptabilité); Table 5.2 from *The Accounting Review* (Nair and Frank 1980) © American Accounting Association; Table 5.14 adapted from *University of Reading Discussion Papers in Accounting, Finance and Banking* (Zambon, S. and Dick, W. 1998) No. 58; Tables 9.8, 10.13 adapted from *European Survey of Published Accounts 1991*, Routledge (FEE 1991); Table 14.6 adapted from extracts from published company financial statements, reproduced with the kind permission of Astrazeneca UK Ltd; Table 18.1 adapted from BT Group plc Annual Reports 1999 and 2008; Table 18.2 from *Comparative International Accounting*, Financial Times Prentice Hall (S.J. McLeay in C.W. Nobes and R.H. Parker (eds) 2008) Chapter 18; Table 18.3 after *Norsk Hydro Annual Reports, 1991, 1993, 2005*.

## Text

Extracts on pages 148, 180, 218, 291 from BASF published parent financial statements and Annual Report of BASF 2008; extract on page 186 from ING 2008 statements; extract on page 341 from Bayer Annual Report 2005; Chapter 18 Annex from *GlaxoSmithKline plc Annual Report 2005*.

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