

FINANCIAL ACCOUNTING

AN INTERNATIONAL INTRODUCTION

David Alexander & Christopher Nobes



Thu Vien DHKTCN-TN



KNV.14001987

FINANCIAL ACCOUNTING

An International Introduction

Visit the *Financial Accounting: An International Introduction, fifth edition* Companion Website at www.pearsoned.co.uk/alexander to find valuable student learning material including:

- self-assessment questions to check your understanding
- weblinks to relevant Internet resources to facilitate in-depth independent research.

PEARSON

We work with leading authors to develop the strongest educational materials in accounting, bringing cutting-edge thinking and best learning practice to a global market.

Under a range of well-known imprints, including Financial Times Prentice Hall, we craft high-quality print and electronic publications that help readers to understand and apply their content, whether studying or at work.

To find out more about the complete range of our publishing, please visit us on the World Wide Web at:
www.pearsoned.co.uk

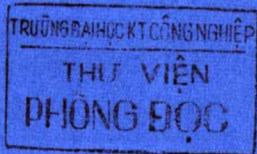
Fifth edition

FINANCIAL ACCOUNTING

An International Introduction

David Alexander and
Christopher Nobes

with an Appendix on Double-entry Bookkeeping
by Anne Ullathorne



PEARSON

Harlow, England • London • New York • Boston • San Francisco • Toronto • Sydney • Auckland • Singapore • Hong Kong
Tokyo • Seoul • Taipei • New Delhi • Cape Town • São Paulo • Mexico City • Madrid • Amsterdam • Munich • Paris • Milan

PEARSON EDUCATION LIMITED

Edinburgh Gate
Harlow CM20 2JE
United Kingdom
Tel: +44 (0)1279 623623
Web: www.pearson.com/uk

First published 2001 (print)
Second edition published 2004 (print)
Third edition published 2007 (print)
Fourth edition published 2010 (print)
Fifth edition published 2013 (print and electronic)

© Pearson Education Limited 2013 (print and electronic)

The rights of David Alexander and Christopher Nobes to be identified as author of this work have been asserted by them in accordance with the Copyright, Designs and Patents Act 1988.

The print publication is protected by copyright. Prior to any prohibited reproduction, storage in a retrieval system, distribution or transmission in any form or by any means, electronic, mechanical, recording or otherwise, permission should be obtained from the publisher or, where applicable, a licence permitting restricted copying in the United Kingdom should be obtained from the Copyright Licensing Agency Ltd, Saffron House, 6-10 Kirby Street, London EC1N 8TS.

The ePublication is protected by copyright and must not be copied, reproduced, transferred, distributed, leased, licensed or publicly performed or used in any way except as specifically permitted in writing by the publishers, as allowed under the terms and conditions under which it was purchased, or as strictly permitted by applicable copyright law. Any unauthorised distribution or use of this text may be a direct infringement of the author's and the publishers' rights and those responsible may be liable in law accordingly.

Pearson Education is not responsible for the content of third-party Internet sites.

The Financial Times. With a worldwide network of highly respected journalists, *The Financial Times* provides global business news, insightful opinion and expert analysis of business, finance and politics. With over 500 journalists reporting from 50 countries worldwide, our in-depth coverage of international news is objectively reported and analysed from an independent, global perspective. To find out more, visit www.ft.com/pearsonoffer.

ISBN: 978-0-273-77343-6 (print)
978-0-273-77348-1 (PDF)
978-0-273-77346-7 (eText)

British Library Cataloguing-in-Publication Data

A catalogue record for the print edition is available from the British Library

Library of Congress Cataloging-in-Publication Data

Alexander, David, 1947 June 16–

Financial accounting : an international introduction / David Alexander and Christopher Nobes with an Appendix on Double-entry Bookkeeping by Anne Ullathorne. — Fifth Edition.
pages cm

ISBN 978-0-273-77343-6 (pbk.)

1. Accounting. 2. Financial statements I. Nobes, Christopher. II. Title.
HF5686.I56A427 2013
657—dc23

2012046290

10 9 8 7 6 5 4 3 2 1
17 16 15 14 13

Printed by Ashford Colour Press Ltd, Gosport

NOTE THAT ANY PAGE CROSS-REFERENCES REFER TO THE PRINT EDITION

Contents

Foreword to the first edition	xi
Preface	xiii
Acknowledgements	xv
Abbreviations	xvi
Part 1 THE CONTEXT OF ACCOUNTING	1
1 Introduction	3
Objectives	3
1.1 Purposes and users of accounting	4
1.2 Accounting regulation and the accountancy profession	7
1.3 Language	9
1.4 Excitement in accounting	9
1.5 The path ahead	10
Summary	11
Multiple choice questions	11
Exercises	12
2 Some fundamentals	13
Objectives	13
2.1 Introduction	14
2.2 The balance sheet	14
2.3 The income statement	21
2.4 Two simple equations	27
2.5 How cash flows fit in	28
Summary	30
Multiple choice questions	30
Exercises	31
3 Frameworks and concepts	35
Objectives	35
3.1 Introduction	36
3.2 Underlying concepts	38
3.3 The IASB's list of qualitative characteristics	39
3.4 A hierarchy of concepts and some inconsistencies	43
3.5 The reporting entity	45

Summary	46
References and research	46
Multiple choice questions	47
Exercises	47
4 The regulation of accounting	49
Objectives	49
4.1 Introduction: various ways to regulate accounting	50
4.2 Legal systems	51
4.3 Entities	52
4.4 Examples of regulation	55
4.5 The regulation of International Standards	61
Summary	61
References and research	62
Multiple choice questions	62
Exercises	63
5 International differences and harmonization	64
Objectives	64
5.1 Introduction: the international nature of the development of accounting	65
5.2 Classification	66
5.3 Influences on differences	73
5.4 Harmonization in the European Union	82
5.5 The International Accounting Standards Board	88
Summary	92
References and research	93
Multiple choice questions	94
Exercises	95
6 The contents of financial statements	97
Objectives	97
6.1 Introduction	98
6.2 Balance sheets (statements of financial position)	99
6.3 Comprehensive income	105
6.4 Statements of changes in equity	112
6.5 Cash flow statements	114
6.6 Notes to the financial statements	115
6.7 Other general disclosure requirements	115
6.8 Wider disclosure considerations: corporate social reporting, corporate governance and ethics	118
Summary	120
References and research	120
Multiple choice questions	121
Exercises	122

7	Financial statement analysis	123
	Objectives	123
	7.1 Introduction	124
	7.2 Ratios and percentages	124
	7.3 Profit ratios	125
	7.4 Profitability ratios	131
	7.5 Liquidity ratios	138
	7.6 Interest cover	139
	7.7 Funds management ratios	139
	7.8 Introduction to investment ratios	141
	7.9 Some general issues about ratios	142
	Summary	145
	Multiple choice questions	146
	Exercises	148
	Part 2 FINANCIAL REPORTING ISSUES	155
8	Recognition and measurement of the elements of financial statements	157
	Objectives	157
	8.1 Introduction	158
	8.2 Primacy of definitions	158
	8.3 Hierarchy of decisions	160
	8.4 Revenue recognition	169
	Summary	175
	References and research	176
	Multiple choice questions	176
	Exercises	178
9	Tangible and intangible non-current assets	179
	Objectives	179
	9.1 Preamble: a tale of two companies	180
	9.2 Introduction	181
	9.3 The recognition of assets	182
	9.4 Should leased assets be recognized?	184
	9.5 Depreciation of cost	187
	9.6 Impairment	199
	9.7 Measurement based on fair value	202
	9.8 Investment properties	205
	9.9 A mix of values	206
	Summary	206
	References and research	207
	Multiple choice questions	208
	Exercises	209

10	Inventories	211
	Objectives	211
	10.1 Introduction	212
	10.2 Counting inventory	214
	10.3 Valuation of inventory at historical cost	215
	10.4 Inventory flow	216
	10.5 Other cost methods	221
	10.6 Valuation of inventory using output values	222
	10.7 Practice	222
	10.8 Current replacement cost	223
	Summary	225
	References and research	225
	Multiple choice questions	225
	Exercises	226
11	Financial assets, liabilities and equity	229
	Objectives	229
	11.1 Introduction	230
	11.2 Cash and receivables	230
	11.3 Investments	233
	11.4 Liabilities	236
	11.5 Equity	241
	11.6 Reserves and provisions	244
	11.7 Comparisons of debt and equity	247
	Summary	248
	References and research	249
	Multiple choice questions	249
	Exercises	250
12	Accounting and taxation	251
	Objectives	251
	12.1 Introduction	252
	12.2 International differences in the determination of taxable income	254
	12.3 Tax rates and tax expense	256
	12.4 Deferred tax	257
	Summary	262
	References and research	262
	Multiple choice questions	263
	Exercises	264
13	Cash flow statements	265
	Objectives	265
	13.1 Introduction	266
	13.2 An outline of the IAS 7 approach	267
	13.3 Reporting cash flows from operating activities	269

13.4 The preparation of cash flow statements	270
13.5 A real example	276
Summary	276
References and research	276
Multiple choice questions	278
Exercises	279
14 Group accounting	280
Objectives	280
14.1 Introduction: the group	281
14.2 Investments related to the group	284
14.3 Accounting for the group	287
14.4 Uniting/pooling of interests	296
14.5 The equity method	297
14.6 Conclusion on group relationships	299
Summary	300
References and research	300
Multiple choice questions	301
Exercises	302
15 Foreign currency translation	305
Objectives	305
15.1 Introduction	306
15.2 Transactions	306
15.3 Translation of financial statements	309
15.4 A numerical illustration	310
Summary	312
References and research	313
Multiple choice questions	313
Exercises	314
16 Accounting for price changes	316
Objectives	316
16.1 Introduction	317
16.2 Effects of price changes on accounting	317
16.3 European disagreement	323
16.4 General or specific adjustment	323
16.5 General price level-adjusted systems	328
16.6 Current value accounting	330
16.7 Mixed values – deprival value	334
16.8 Partial adjustments	337
16.9 Fair values	338
Summary	340
References and research	340
Multiple choice questions	341
Exercises	342