

BARRY ELLIOTT AND JAMIE ELLIOTT
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AND REPORTING**

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Financial Accounting and Reporting

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Barry Elliott and Jamie Elliott

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Preface

Our objective is to provide a balanced and comprehensive framework to enable students to acquire the requisite knowledge and skills to appraise current practice critically and to evaluate proposed changes from a theoretical base. To this end, the text contains:

- extracts from current IASs and IFRSs;
- illustrations from published accounts;
- a range of review questions;
- exercises of varying difficulty;
- extensive references.

Solutions to selected exercises can be found on MyAccountingLab.

We have assumed that readers will have an understanding of financial accounting to a foundation or first-year level, although the text and exercises have been designed on the basis that a brief revision is still helpful. For the preparation of financial statements in Part 1 and Part 5 we have structured the chapters to assist readers who may have no accounting knowledge.

Lecturers are using the text selectively to support a range of teaching programmes for second-year and final-year undergraduate and postgraduate programmes. We have therefore attempted to provide subject coverage of sufficient breadth and depth to assist selective use.

The text has been adopted for financial accounting, reporting and analysis modules on:

- second-year undergraduate courses for Accounting, Business Studies and Combined Studies;
- final-year undergraduate courses for Accounting, Business Studies and Combined Studies;
- MBA courses;
- specialist MSc courses; and
- professional courses preparing students for professional accountancy examinations.

Changes to the seventeenth edition

Our emphasis has been on keeping the text current and responsive to constructive comments from reviewers and lecturers.

National accounting standards and the IASB

Since 2005 UK listed companies have followed international standards EU-IFRS for their consolidated accounts.

From 2013 large and medium-sized private companies in the UK will follow FRS 102 *The Financial Reporting Standard*. This standard is based (with UK modifications) on *IFRS for SMEs* which was issued by the IASB in 2009 – the indications are that companies might adopt FRS 102 instead of the IFRS in the future.

Smaller entities will continue to follow FRSSE.

Accounting standards – seventeenth edition updates

Chapters covering the following International Standards have been revised. They are as follows:

Chapter 3	Preparation of financial statements	IAS 1
Chapter 4	Preparation of additional financial statements	IAS 10, IAS 24, IFRS 5 and IFRS 8
Chapter 5	Statements of cash flows	IAS 7
Chapter 7	Accounting for price-level changes	IAS 29
Chapter 8	Revenue recognition	IFRS 15
Chapter 13	Liabilities	IAS 37/ED/2010/1
Chapter 14	Financial instruments	IAS 32, IFRS 7 and IFRS 9
Chapter 15	Employee benefits	IAS 19 (revised 2011), IAS 26 and IFRS 2
Chapter 16	Taxation in company accounts	IAS 12
Chapter 17	Property, plant and equipment (PPE)	IAS 16, IAS 20, IAS 23, IAS 36, IAS 40 and IFRS 5
Chapter 18	Leasing	IAS 17 and ED/2013/6
Chapter 19	Intangible assets	IAS 38 and IFRS 3
Chapter 20	Inventories	IAS 2
Chapter 21	Construction contracts	IAS 11 and IFRS 15
Chapters 22–26	Consolidation	IAS 21, IAS 28, IFRS 3, 10, 11, 12 and 13
Chapter 27	Earnings per share	IAS 33

Part I Preparation of financial statements

Chapters 1 and 2 continue to cover accounting and reporting on a cash flow and accrual basis. Chapters 3 to 5 have been revised. They cover the preparation of statements of income, changes in equity, financial position and cash flows.

Part 2 Income and asset value measurement systems

Chapters 6 and 7 covering the economic income approach and accounting for price-level changes have been retained. Chapter 8 discusses the application of IFRS 15.

Part 3 Regulatory framework – an attempt to achieve uniformity

Chapters 9 and 10 have been revised.

Part 4 Statement of financial position

Chapters 12–21 are core chapters which have been retained and updated as appropriate.

Part 5 Consolidated accounts

Chapters 22–26 have been updated and revised to improve accessibility with explanations from first principles.

Part 6 Interpretation

Chapters 28 and 29 are retained, aiming at encouraging good report writing based on the pyramid approach to ratios and an introduction to other tools and techniques for specific assignments. Chapter 30 has been revised to discuss an overview of financial reporting on the internet.

Part 7 Accountability

Chapters 31 and 32 have been updated and continue to focus on the accountant's role in corporate governance and in the development of sustainability and integrated reporting.

Recent developments

In addition to the issue by the IASB of IFRS 15 and various EDs, the issue of the new EU Accounting Directive and the issue of statutory regulations on directors' remuneration in the UK in response to the apparent lack of any relationship between increases in directors' remuneration and company performance, there has been:

- guidance by the FRC in the UK on the implementation of the Strategic Report,
- the issue by the International Integrated Reporting Council of the Integrated Reporting Framework which aims to explain how the company interacts with the external environment and the capitals such as the Financial and Manufactured capitals to create value over the short term, medium term and long term, and
- the launch by the Collective Engagement Working Group of the 'Investors Forum' to encourage investors and companies to develop a shared sense of partnership to promote long-term strategies that can generate sustainable wealth creation for all stakeholders.

The content of financial reports continues to be subjected to discussion with tension between preparers, stakeholders, auditors, academics and standard setters; this is mirrored in the tension that exists between theory and practice.

- Preparers favour reporting transactions on a historical cost basis, which is reliable but does not provide shareholders with relevant information to appraise past performance or to predict future earnings.
- Shareholders favour forward-looking reports relevant in estimating future dividend and capital growth and in understanding environmental and social impacts.

- Stakeholders favour quantified and narrative disclosure of environmental and social impacts and the steps taken to reduce negative impacts.
- Auditors favour reports that are verifiable so that the figures can be substantiated to avoid them being proved wrong at a later date.
- Academic accountants favour reports that reflect economic reality and are relevant in appraising management performance and in assessing the capacity of the company to adapt.
- Standard setters lean towards the academic view and favour reporting according to the commercial substance of a transaction.

In order to understand the tensions that exist, students need:

- the skill to prepare financial statements in accordance with the historical cost and current cost conventions, both of which appear in annual financial reports;
- an understanding of the main thrust of mandatory and voluntary standards;
- an understanding of the degree of flexibility available to the preparers and the impact of this on reported earnings and the figures in the statement of financial position;
- an understanding of the limitations of financial reports in portraying economic reality; and
- an exposure to source material and other published material in so far as time permits.

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Barry and Jamie Elliott

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Text

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