The fully updated International Edition of Elliott and Elliott’s market-leading Financial Accounting and Reporting uses the latest International Accounting Standards as its framework. It offers a unique balance of theoretical and conceptual coverage with up-to-date practical applications and illustrations taken from real world international company reports and accounts. The text is ideal for financial accounting, reporting and analysis modules on second and final year undergraduate courses in accounting, business studies and combined studies. It is also suitable for MBA courses, specialist MSc courses and professional courses preparing students for accountancy examinations.

Key features:
• Completely updated in line with IFRSs and the application of international standards worldwide.
• New pedagogical features including key points, overviews, chapter objectives and learning outcomes, summaries and further questions.
• Widespread inclusion of contemporary international case studies.
• Attractive new two-colour design. Illustrations taken from real published accounts to demonstrate the practical application and limitations of the subject.
• Excellent range of review questions for use in seminars or for revision purposes.
• Exercises of varying difficulty with solutions to selected exercises provided at the back of the book.
• Extensive references included at the end of each chapter.
• Supported by an Instructor’s Manual containing fully worked solutions to all exercises in the book.

Barry Elliott is a training consultant. He has extensive teaching experience at undergraduate, postgraduate and professional level in China, Hong Kong, New Zealand and Singapore. He has wide experience as an external examiner both in higher education and at all levels of professional education.

Jamie Elliott is a Director with Deloitte & Touche. Prior to this he has lectured at university on undergraduate degree programmes and as an assistant professor on MBA and executive programmes at the London Business School.

Visit the Financial Accounting, Reporting and Analysis: International Edition (2nd Edition) Companion Website at www.pearsoned.co.uk/elliott_elliott to find valuable student learning material including:

- Extracts from the financial press
- Multiple choice questions to test your learning
- Case studies with solutions
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 which 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
Brief Contents

Preface and acknowledgements xviii

Part 1
REGULATORY FRAMEWORK – AN ATTEMPT TO ACHIEVE UNIFORMITY 1
1 Financial reporting – evolution of international standards 3
2 Conceptual framework 24
3 Published accounts of companies 49
4 Preparation of published accounts 94

Part 2
BALANCE SHEET – EQUITY, LIABILITY AND ASSET MEASUREMENT AND DISCLOSURE 117
5 Share capital, distributable profits and reduction of capital 119
6 Off balance sheet finance 144
7 Financial instruments 171
8 Employee benefits 190
9 Taxation in company accounts 212
10 Property, plant and equipment (PPE) 239
11 Leasing 271
12 R&D; goodwill and intangible assets; brands 291
13 Inventories 322
14 Construction contracts 345

Part 3 CONSOLIDATED ACCOUNTS 361
15 Accounting for groups at the date of acquisition 363
16 Preparation of consolidated balance sheets after the date of acquisition 380
17 Preparation of consolidated income statements 392
18 Accounting for associated companies 410
19 Accounting for the effects of changes in foreign exchange rates under IAS 21 425
**vi • Brief Contents**

### Part 4 INTERPRETATION

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Earnings per share</td>
<td>445</td>
</tr>
<tr>
<td>21</td>
<td>Cash flow statements</td>
<td>470</td>
</tr>
<tr>
<td>22</td>
<td>Review of financial ratio analysis</td>
<td>495</td>
</tr>
<tr>
<td>23</td>
<td>Trend analysis and multivariate analysis</td>
<td>537</td>
</tr>
<tr>
<td>24</td>
<td>An introduction to financial reporting on the Internet</td>
<td>577</td>
</tr>
</tbody>
</table>

### Part 5 ACCOUNTABILITY

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>Corporate governance</td>
<td>591</td>
</tr>
<tr>
<td>26</td>
<td>Environmental and social reporting</td>
<td>622</td>
</tr>
<tr>
<td>27</td>
<td>Ethics for accountants</td>
<td>659</td>
</tr>
</tbody>
</table>

**Appendix: Outline solutions to selected exercises**

- 679

**Index**

- 685
## Full Contents

### Preface and acknowledgements  xviii

### Part 1
**REGULATORY FRAMEWORK – AN ATTEMPT TO ACHIEVE UNIFORMITY**

#### 1 Financial reporting – evolution of international standards  3

1.1 Introduction  3
1.2 National differences  3
1.3 Reasons for differences in financial reporting  4
1.4 Classification of national accounting systems  8
1.5 Attempts to reduce national differences  9
1.6 The work of international bodies in harmonising and standardising financial reporting  9
1.7 Arguments in support of standards  16
1.8 Arguments against standards  17
1.9 US GAAP  18
1.10 Reconciliations and supplementary statements  20
   Summary  21
   Review questions  21
   Exercises  21
   References  22

#### 2 Conceptual framework  24

2.1 Introduction  24
2.2 Historical overview of the evolution of financial accounting theory  25
2.3 IASC Framework for the Presentation and Preparation of Financial Statements  28
2.4 ASB Statement of Principles 1999  30
2.5 AICPA Improving Business Reporting – A Customer Focus: Meeting the Information Needs of Investors and Creditors  40
2.6 ICAS Making Corporate Reports Valuable  41
   Summary  42
   Review questions  44
   Exercises  45
   References  48
3 Published accounts of companies

3.1 Introduction 49
3.2 A public company’s financial calendar 50
3.3 Criteria for information appearing in a published income statement and balance sheet 51
3.4 The prescribed formats – the income statement 51
3.5 What information is required to be disclosed in Format 1 and Format 2? 52
3.6 Cost of sales 53
3.7 Distribution costs 57
3.8 Administrative expenses 57
3.9 Other income 57
3.10 What costs and income are brought into account after calculating the trading profit in order to arrive at the profit on ordinary activities before tax? 57
3.11 Does it really matter under which heading a cost is classified in the income statement provided it is not omitted? 58
3.12 Discontinued operations disclosure in the income statement 58
3.13 Items requiring separate disclosure 61
3.14 The prescribed formats – the balance sheet 61
3.15 Statement of changes in equity 65
3.16 Reporting comprehensive income 67
3.17 Segment reporting 70
3.18 The fundamental accounting principles underlying the published income statement and balance sheet 71
3.19 Disclosure of accounting policies 71
3.20 Fair view treatment 76
3.21 Additional information in the annual report 78
3.22 What information do companies provide to assist comparison between companies reporting under different reporting regimes? 80

Summary 84
Review questions 84
Exercises 86
References 93

4 Preparation of published accounts

4.1 Introduction 94
4.2 Stage 1: preparation of the internal income statement from a trial balance 94
4.3 Stage 2: preparation of the income statement of Illustrious SpA in Format 1 style 96
4.4 Stage 3: preparation of the balance sheet 99
4.5 Preparation of accounts in Format 1 following IAS 8 and IFRS 5 100
4.6 Additional information value of IFRS 5 104
4.7 Additional information value of IAS 24 105

Summary 107
Review questions 108
Exercises 109
References 116
Part 2
BALANCE SHEET – EQUITY, LIABILITY AND ASSET MEASUREMENT AND DISCLOSURE

5 Share capital, distributable profits and reduction of capital 119
  5.1 Introduction 119
  5.2 Total owners’ equity: an overview 121
  5.3 Total shareholders’ funds: more detailed explanation 122
  5.4 Accounting entries on issue of shares 124
  5.5 Creditor protection: capital maintenance concept 125
  5.6 Creditor protection: why capital maintenance rules are necessary 126
  5.7 Creditor protection: how to quantify the amounts available to meet creditors’ claims 127
  5.8 Issued share capital: minimum share capital 127
  5.9 Distributable profits: general considerations 128
  5.10 Distributable profits: how to arrive at the amount using relevant accounts 129
  5.11 When may capital be reduced? 129
  5.12 Writing off part of capital which has already been lost and is not represented by assets 130
  5.13 Repayment of part of paid-in capital to shareholders or cancellation of unpaid share capital 136
  5.14 Purchase of own shares 136
    Summary 139
    Review questions 140
    Exercises 140
    References 143

6 Off balance sheet finance 144
  6.1 Introduction 144
  6.2 Primary financial statements: their interrelationship 144
  6.3 Primary financial statements: changes in their interrelationship 145
  6.4 Reasons that companies borrow 145
  6.5 Capital gearing and its implications 146
  6.6 Off balance sheet finance 148
  6.7 Substance over form 149
  6.8 Impact of converting to IFRS 152
  6.9 Balance sheet as valuation document 155
  6.10 Why companies take steps to strengthen their balance sheets 156
  6.11 Definitions cannot remove uncertainty: IAS 10 and IAS 37 157
    Summary 165
    Review questions 166
    Exercises 167
    References 169