Global Financial Reporting

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JOHN FLOWER

with Gabi Ebbers

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Preface

The subject matter of this book is financial reporting at the global level, with particular emphasis on the larger multinational enterprises, such as the USA's General Electric, Japan's Toyota, Germany's DaimlerChrysler, France's Vivendi and Britain's BP Amoco. There are two commonly-accepted approaches to the study of financial reporting at the global level: the 'country approach' and the 'issues approach'. With the country approach the basic unit of study is the individual country. Through an examination of financial reporting as practised in various countries, the student gains an understanding not only of the accounts of enterprises from these countries but also of the richness and diversity of accounting throughout the world. The arguments in favour of the country approach may be summarised as follows:

Financial reporting is still basically regulated at the country level. Even the largest and most globally oriented of the 'global players' is obliged to follow national rules and standards when drawing up its financial statements. Among the advocates of the country approach are Walton, Haller and Raffournier who, in the preface to their textbook *International Accounting* (International Thompson Business Press, London, 1998), justify their position in the following terms:

We take the view that accounting in any one country at any one time represents the result of an evolution over many years. This evolution has taken place against a cultural backcloth which imbues each country's rules with many particularities, and institutions have been created which are unique in each country. We think therefore a holistic approach offers a more profound way of addressing international accounting differences.

The authors of the present book are basically in agreement with the position set out in this quotation. In particular, they consider that the present practice of financial reporting can only be fully understood with reference to its historical development and that the greater part of this

historical development has taken place at the level of the individual country. In order to understand how financial reporting has reached its present position, then, an examination of the development at the country level is essential.

The first part of this book adopts the 'country approach'. Part One sets the scene with an analysis of the factors that cause national differences in financial reporting rules and practice; in Part Two the rules and practices of a number of countries are analysed, using a country-by-country approach, with one chapter per country.

However the greater part of the book does not adopt the country approach. In Part Two, only five countries are examined in detail. In most textbooks that adopt the country approach, many more countries are covered; for example Walton, Haller and Raffournier cover no less than twenty-two countries. The authors of the present book limit themselves to five countries for the following reasons:

- (i) The five countries (USA, Japan, Germany, France and Britain) are the most important for the study of global financial reporting, as measured by most criteria: GNP, share of world trade, number of multinational enterprises and, most significantly, influence on the development of global financial reporting rules and practice.
- (ii) The authors' aim is not to provide a treatise of financial reporting as practised in a large number of countries, but rather to analyse and explain financial reporting as practised at the global level. This can be done quite adequately through an examination of the five most important countries.
- (iii) The authors believe that five is about the maximum number of countries that a student can study without becoming bored by the inevitable repetition and losing interest in the whole process.

In April 2001, an event occurred which is certain to have far-reaching consequences on the future development of financial reporting at the global level. The International Accounting Standards Board (IASB) took over from its predecessor, the IASC, the task of setting standards for the world. Undoubtedly the IASB will be an important new force in global financial reporting. Thus the whole of Part Three is given over to an exposition and analysis of this body, in effect adopting the 'country approach' to the examination of an international institution.

The alternative way to study financial reporting at the global level is to adopt the 'issues approach'; the breakdown of the subject is by topics and not by countries, the more important topics and issues being analysed globally. The authors believe that the 'issues approach' has certain advantages in presenting the complex and diverse material of global financial

reporting. In particular there is less chance of the student losing interest through the repetition that inevitably accompanies the country approach. Furthermore the IASB's standards provide a very convenient framework for the exposition and analysis of the major issues on a global basis. In effect the increasing globalization of financial reporting (as evidenced in the enhanced role of the IASB) has reached the stage where the country approach is no longer sufficient. Hence the greater part of the book adopts the issues approach: Part Four considers the various elements of the financial statements and Part Five certain other issues, selected for their topical interest.

TARGET READERSHIP

The book is designed for final-year undergraduate and postgraduate courses in accounting and finance. The emphasis is on the 'why' and not the 'how' of accounting – to analyse and explain the practice of financial reporting at the global level, with particular reference to the financial statements of the larger multinational enterprises and to the standards of the International Accounting Standards Board.

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Alcatel, Aventis, BASF, Bayer, BP Amoco, Cadbury Schweppes, Daimler-Chrysler, FIAT Group, Ford Motor Company, Fujitsu, General Electric Company, General Motors, Henkel, News Corporation Ltd, Peninsular and Oriental Steam Navigation Company, Nissan, Peugeot, Roche, Royal Dutch/Shell Group, SAP, Skandia, Sony, TotalFinaElf, Tottenham Hotspur PLC, Toyota, VIAG, Vivendi, Volkswagen AG.

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List of Abbreviations

AAA	American Accounting Association, USA
AARF	Australian Accounting Research Foundation
AG	Aktiengesellschaft, Germany
AICPA	American Institute of Certified Public Accountants
ASB	Accounting Standards Board, UK
ASC	Accounting Standards Committee, UK
ASSC	Accounting Standards Steering Committee, UK
BADC	Business Accounting Deliberations Council, Japan
CICA	Canadian Institute of Chartered Accountants
CNC	Conseil National de la Comptabilité, France
CNNC	Compagnie Nationale des Commissaires aux Comptes, France
COB	Commission des Opérations de Bourse, France
CPA	Certified Public Accountant, USA
CRC	Comité de Réglementation Comptable, France
DRS	Deutscher Rechnungslegungs Standard (German accounting standard)
DSOP	Draft statement of principles
DSR	Deutsche Standardisierungsrat (German Standardization Council)
ED	Exposure draft
EITF	Emerging Issues Task Force, USA
EU	European Union
FASB	Financial Accounting Standards Board, USA
FAS	Financial Accounting Standard, USA
FDI	Foreign direct investment
FRS	Financial Reporting Standard, UK
GAAP	Generally accepted accounting principles
GoB	Grundsätze ordnungsmässiger Buchführung (Principles of orderly book-keeping)
HGB	Handelsgesetzbuch (Commercial Code, Germany)
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IAS	International Accounting Standard
ICAEW	Institute of Chartered Accountants in England and Wales
IdW	Institut der Wirtschaftsprüfer, Germany

IFAC	International Federation of Accountants
IOSCO	International Organization of Securities Commissions
JICPA	Japanese Institute of Certified Public Accountants
KK	Kabushiki kaisha
MNE	Multinational enterprise
NYSE	New York Stock Exchange
OECD	Organization for Economic Cooperation and Development
OEC	Ordre des Experts Comptables, France
PCG	Plan Comptable Général, France
PLC	Public limited company, UK
R&D	Research and development
SA	Société anonyme, France
SEC	Securities and Exchange Commission, USA
SEL	Securities and Exchange Law, Japan
SSAP	Statement of standard accounting practice, UK
STRGL	Statement of total recognised gains and losses
UNCTAD	United Nations Conference on Trade and Development
UN	United Nations
US GAAP	US generally accepted accounting principles