**International Financial Reporting and Analysis,**

**8th edition**

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**Solutions Manual**

**Answers marked 🗹 can also be found on the Student side of the website.**

**Chapter 1 A brief introduction to international financial reporting**

🗹 1 Obviously the scope here is almost endless. Here are three definitions from the US (extracted from Belkaoui (2004: 38) *Accounting Theory*, 5th edn, Cengage Learning EMEA).

‘The Committee on Terminology of the American Institute of Certified Public Accounting defined accounting as follows:

*Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof*.[[1]](#footnote-1)

The scope of accounting from this definition appears limited. A broader perspective was offered, by the following definition of accounting as:

The process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information.[[2]](#footnote-2)

Accounting has also been defined with reference to the concept of quantitative information:

*Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature about economic entities that is intended to be useful in making economic decisions, in making resolved choices among alternative courses of action*.[[3]](#footnote-3)’

🗹 2 Financial statements represent an account of the financial position of the business at different points in time, and the financial performance over a period of time. This information and the process of preparing it are part of the corporate governance of a firm and its accountability to other financial statement users. Information about the entity’s financial performance is per definition about the past. At the time the financial statements are issued, the information on the entity’s financial position is about three months old. Users must use this financial statement information about the recent past and combine this with other information about the past and present (both qualitative and quantitative, and both from within the firm and outside the firm) for their current purposes.

Such purposes are often to do with the steps to take now in order to generate a desired outcome in the future. When considering the types of decisions that the different user groups need to make, **accountability and stewardship** type of decisions are better served by information that is more objectively and reliably determined because monitoring agents relies on objectively verifiable information. On the other hand, many people think that the **decision-usefulness** function is better served by information that is as timely and future oriented as possible. In case of the **efficient contracting** perspective, incentivising and monitoring agents may require information with different characteristics depending on the principal’s tolerance or appetite for risk. For example, well-diversified investors may not have as much of a preference for objectively determined reliable information as lenders do. Consider:

* Relevance vs reliability
* Objectivity vs usefulness
* Producer convenience vs user needs.

🗹 3 Perhaps it all depends on what ‘reasonably’ means. The needs of different users are certainly different (illustration required), but greater relevance from multiple reports would need to be set against:

(a) Costs of preparation

(b) Danger of confusion and the difficulties of user education.

4–5 We suggest that these two questions are treated as a set. There is scope for wide differences of view and considerable debate. We suspect that there will be students who place more emphasis on the different functions of general purpose financial reporting (the accountability, stewardship, decision-usefulness, efficient contracting and social functions). This would lead to discussion of the role of corporations and general purpose financial reporting in society!

6-7 Again, these two questions can be treated as a set. For question 6 the idea is that students discuss the influence of international political motivations, such as the preservation of a country’s sovereignty over financial reporting standards and policies, may outweigh the perceived economic benefits of a single set of international financial reporting standards. For question 7, the idea is that students appreciate the tension between technical arguments for and against financial reporting standards and disclosure requirements that improve market efficiency, and political arguments for and against financial reporting standards and disclosure requirements that are motivated by costs and benefits to companies and investors.

1. ‘Review and resume’, Accounting Terminology Bulletin No.1, American Institute of Certified Public Accountants, New York, 1953, paragraph 5. [↑](#footnote-ref-1)
2. American Accounting Association, A Statement of Basic Accounting Theory, American Accounting Association, Evanston, IL, 1966, p.1. [↑](#footnote-ref-2)
3. Financial Statements of Business Enterprises’, American Institute of Certified Public Accountants, New York, 1970, paragraph 40. [↑](#footnote-ref-3)