



THIRTEENTH EDITION  
**COMPARATIVE  
INTERNATIONAL  
ACCOUNTING**

Christopher Nobes & Robert Parker

## COMPARATIVE INTERNATIONAL ACCOUNTING

Visit the *Comparative International Accounting, Thirteenth Edition* Companion Website at [www.pearsoned.co.uk/nobes](http://www.pearsoned.co.uk/nobes) to find valuable **student** learning material including:

- A mock exam of multiple choice questions to test your understanding
- Extensive links to valuable resources on the web
- Flashcards to test your understanding of key terms

## PEARSON

At Pearson, we have a simple mission: to help people make more of their lives through learning.

We combine innovative learning technology with trusted content and educational expertise to provide engaging and effective learning experiences that serve people wherever and whenever they are learning.

From classroom to boardroom, our curriculum materials, digital learning tools and testing programmes help to educate millions of people worldwide – more than any other private enterprise.

Every day our work helps learning flourish, and wherever learning flourishes, so do people.

To learn more, please visit us at [www.pearson.com/uk](http://www.pearson.com/uk)



13th Edition

# COMPARATIVE INTERNATIONAL ACCOUNTING

Christopher Nobes  
and  
Robert Parker

**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  
Essex CM20 2JE  
England

and Associated Companies throughout the world

Visit us on the World Wide Web at:  
[www.pearson.com/uk](http://www.pearson.com/uk)

First edition published in Great Britain under the Philip Allen imprint 1981  
Second edition published 1985  
Third edition published under the Prentice Hall imprint 1991  
Fourth edition published 1995  
Fifth edition published under the Prentice Hall imprint 1998  
Sixth edition published 2000  
Seventh edition published 2002  
Eighth edition published 2004  
Ninth edition published 2006  
Tenth edition published 2008  
Eleventh edition published 2010  
Twelfth edition published 2012  
**Thirteenth edition published 2016**

© Prentice Hall Europe 1991, 1995, 1998  
© Pearson Education Limited 2000, 2002, 2004, 2006, 2008, 2010, 2012, 2016  
Chapter 17 (formerly 18) © John Flower 2002, 2004, 2006, 2008, 2010, 2012, 2016

The rights of Christopher Nobes and Robert Parker to be identified as authors of this Work have been asserted by them in accordance with the Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without either the prior written permission of the publisher or a licence permitting restricted copying in the United Kingdom issued by the Copyright Licensing Agency Ltd, Barnard's Inn, 86 Fetter Lane, London EC4A 1EN.

Crown Copyright material is reproduced with the permission of the Controller of Her Majesty's Stationery Office (HMSO) and the Queens' Printer for Scotland.

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

ISBN 978-1-292-08190-8

#### **British Library Cataloguing-in-Publication Data**

A catalogue record for this book is available from the British Library

#### **Library of Congress Cataloging-in-Publication Data**

Names: Nobes, Christopher, editor. | Parker, R. H. (Robert Henry), editor.  
Title: Comparative international accounting / Christopher Nobes and Robert Parker.  
Description: 13th edition. | Harlow, England ; New York : Pearson, 2016.  
Identifiers: LCCN 2015042325 | ISBN 9781292081908 (print)  
Subjects: LCSH: Comparative accounting.  
Classification: LCC HF5625 .C74 2016 | DDC 657--dc23  
LC record available at <http://lccn.loc.gov/2015042325>

10 9 8 7 6 5 4 3 2 1  
20 19 18 17 16

Typeset in 9.5/12.5pt Stone Serif ITC Pro Medium by Lumina Datamatics  
Printed in Slovakia by Neografia.

# Brief contents

Contributors	xvi
Preface	xvii

## Part I SETTING THE SCENE

1	Introduction	3
2	Causes and examples of international differences	27
3	International classification of financial reporting	58
4	International harmonization	89

## Part II FINANCIAL REPORTING BY LISTED GROUPS USING IFRS OR US GAAP

5	The context of financial reporting by listed groups	119
6	The requirements of International Financial Reporting Standards	151
7	Different versions of IFRS practice	186
8	Financial reporting in the United States	203
9	Key financial reporting topics	236
10	Political lobbying on accounting standards – US, UK and international experience	267

## Part III CHINA AND JAPAN

11	Financial reporting in China and Japan	303
----	--	-----

## Part IV FINANCIAL REPORTING BY INDIVIDUAL COMPANIES

12	The context of financial reporting by individual companies	337
13	Harmonization and transition in Europe	350
14	Making accounting rules for unlisted business enterprises in Europe	372
15	Accounting rules and practices of individual companies in Europe	396

## **Part V GROUP ACCOUNTING ISSUES IN REPORTING BY MNEs**

16	Group accounting	423
17	Foreign currency translation	443
18	Segment reporting	483

## **Part VI MONITORING AND ENFORCEMENT**

19	International auditing	515
20	Enforcement of financial reporting standards	545
	<b>Synoptic table of accounting differences in eight GAAPs, 2015</b>	<b>565</b>
	<b>Glossary of abbreviations</b>	<b>568</b>
	<b>Suggested answers to some of the end-of-chapter questions</b>	<b>574</b>
	<b>Author index</b>	<b>592</b>
	<b>Subject index</b>	<b>596</b>

# Contents

Contributors	xvi
Preface	xvii
<b>Part I SETTING THE SCENE</b>	
<b>1 Introduction</b>	<b>3</b>
Contents	3
Objectives	3
1.1 Differences in financial reporting	4
1.2 The global environment of accounting	5
1.3 The nature and growth of MNEs	15
1.4 Comparative and international aspects of accounting	18
1.5 Structure of this book	21
Summary	23
References	24
Useful websites	25
Questions	26
<b>2 Causes and examples of international differences</b>	<b>27</b>
Contents	27
Objectives	27
2.1 Introduction	28
2.2 Culture	28
2.3 Legal systems	31
2.4 Providers of finance	33
2.5 Taxation	37
2.6 Other external influences	41
2.7 The profession	42
2.8 Conclusion on the causes of international differences	43
2.9 Some examples of differences	44
Summary	52
References	53
Questions	57



<b>3</b>	<b>International classification of financial reporting</b>	<b>58</b>
	Contents	58
	Objectives	59
	3.1 Introduction	59
	3.2 The nature of classification	60
	3.3 Classifications by social scientists	60
	3.4 Classifications in accounting	62
	3.5 Extrinsic classifications	66
	3.6 Intrinsic classifications:1970s and 1980s	71
	3.7 Developments related to the Nobes classification	76
	3.8 Further intrinsic classification	78
	3.9 Is there an Anglo-Saxon group?	79
	3.10 Classification in an IFRS world	80
	3.11 A synthesis of accounting classifications	81
	Summary	83
	References	84
	Questions	88
<b>4</b>	<b>International harmonization</b>	<b>89</b>
	Contents	89
	Objectives	90
	4.1 Introduction	90
	4.2 Reasons for, obstacles to and measurement of harmonization	91
	4.3 The International Accounting Standards Committee	94
	4.4 Other international bodies	103
	4.5 The International Accounting Standards Board	107
	Summary	112
	References	112
	Useful websites	115
	Questions	116
<b>Part II FINANCIAL REPORTING BY LISTED GROUPS USING IFRS OR US GAAP</b>		
<b>5</b>	<b>The context of financial reporting by listed groups</b>	<b>119</b>
	Contents	119
	Objectives	119
	5.1 Introduction	120
	5.2 The legal and political context of international standards	121

5.3	Adoption of, and convergence with, IFRS	121
5.4	IFRS in the EU	125
5.5	IFRS/US differences	128
5.6	Convergence of IFRS and US GAAP	133
5.7	Reconciliations from national rules to US GAAP or IFRS	134
5.8	International financial analysis	136
	Summary	144
	References	145
	Useful websites	149
	Questions	149

## **6 The requirements of International Financial Reporting Standards 151**

	Contents	151
	Objectives	152
6.1	Introduction	152
6.2	The conceptual framework	154
6.3	Presentation and accounting policies	159
6.4	Revenue and foreign currency transactions	161
6.5	Assets	162
6.6	Liabilities	166
6.7	Group accounting	167
6.8	Disclosures, and management commentary	169
6.9	Synthesis: the sources of the content of IFRS	170
	Summary	171
	References	172
	Further reading	172
	Useful websites	172
	Questions	173
	Appendix 6.1 An outline of the content of International Financial Reporting Standards	174

## **7 Different versions of IFRS practice 186**

	Contents	186
	Objectives	186
7.1	Introduction	187
7.2	Motivations for varied IFRS practice	187
7.3	Scope for varied IFRS practice	189
7.4	Examples of varied IFRS practice	196
7.5	Changes in IFRS practice over time	198
7.6	Implications	199
	Summary	200

References	200
Questions	202

**8 Financial reporting in the United States 203**

Contents	203
Objectives	204
8.1 Introduction	204
8.2 Regulatory framework	205
8.3 Accounting standard-setters	209
8.4 The conceptual framework	212
8.5 Contents of annual reports	215
8.6 Accounting principles	220
8.7 Consolidation	227
8.8 Audit	229
8.9 Differences from IFRS	230
Summary	232
References	233
Further reading	234
Useful websites	235
Questions	235

**9 Key financial reporting topics 236**

Contents	236
Objectives	237
9.1 Introduction	237
9.2 Revenue recognition	238
9.3 Recognition of intangible assets	240
9.4 Measurement of assets	242
9.5 Financial instruments	244
9.6 Provisions	248
9.7 Employee benefits	252
9.8 Deferred tax	256
9.9 Measurement of liabilities	261
9.10 Comprehensive income	261
Summary	264
References	265
Questions	266

**10 Political lobbying on accounting standards – US, UK and international experience 267**

Contents	267
Objectives	267

10.1	Introduction	268
10.2	Motivations for political lobbying	269
10.3	Political lobbying up to 1990	271
10.4	US political lobbying from 1990	281
10.5	Political lobbying of the IASC/IASB	286
10.6	Preparer attempts to control the accounting standard-setter	291
10.7	Political lobbying of the FASB's convergence with the IASB	293
10.8	Some concluding remarks	295
	Summary	295
	References	296
	Useful websites	298
	Questions	299

### Part III CHINA AND JAPAN

<b>11</b>	<b>Financial reporting in China and Japan</b>	<b>303</b>
	Contents	303
	Objectives	304
11.1	Introduction	304
11.2	Japan: regulatory issues	305
11.3	Japan: accounting practices	313
11.4	Japan: differences from IFRS	318
11.5	China: regulatory issues	320
11.6	China and IFRS	324
	Summary	328
	References	328
	Further reading	331
	Useful websites	331
	Questions	331
	Appendix 11.1 ASBE Standards	333

### Part IV FINANCIAL REPORTING BY INDIVIDUAL COMPANIES

<b>12</b>	<b>The context of financial reporting by individual companies</b>	<b>337</b>
	Contents	337
	Objectives	337
12.1	Introduction	337
12.2	Outline of differences between national rules and IFRS or US GAAP	338

12.3	The survival of national rules	340
12.4	Financial reporting, tax and distribution	342
12.5	Special rules for small or unlisted companies	343
	Summary	347
	References	347
	Useful websites	348
	Questions	349
<b>13</b>	<b>Harmonization and transition in Europe</b>	<b>350</b>
	Contents	350
	Objectives	350
13.1	Introduction	351
13.2	Harmonization within the European Union	351
13.3	Transition in Central and Eastern Europe	358
	Summary	367
	References	367
	Useful websites	370
	Questions	371
<b>14</b>	<b>Making accounting rules for unlisted business enterprises in Europe</b>	<b>372</b>
	Contents	372
	Objectives	372
14.1	Introduction	372
14.2	Who makes the accounting rules?	373
14.3	Which business enterprises are subject to accounting rules?	383
	Summary	388
	References	389
	Further reading	390
	Useful websites	391
	Questions	392
	Appendix 14.1 Contents of the <i>Plan comptable général</i> (relating to financial accounting and reporting)	393
	Appendix 14.2 Financial accounting chart of accounts, Classes 1–7 in the <i>Plan comptable général</i> (ANC’s translation of 1999 chart, adjusted for changes in 2014)	394
<b>15</b>	<b>Accounting rules and practices of individual companies in Europe</b>	<b>396</b>
	Contents	396
	Objectives	396

15.1	Introduction	396
15.2	France	397
15.3	Germany	401
15.4	United Kingdom	407
	Summary	408
	References	409
	Further reading	410
	Useful websites	410
	Questions	410
Appendix 15.1	Formats for French financial statements (2014 <i>plan comptable</i> )	411
Appendix 15.2	Formats for German financial statements (before implementation of the 2013 revised Directive)	414
Appendix 15.3	Formats for British financial statements (before implementation of the 2013 revised Directive)	417

## Part V GROUP ACCOUNTING ISSUES IN REPORTING BY MNEs

<b>16</b>	<b>Group accounting</b>	<b>423</b>
	Contents	423
	Objectives	423
16.1	Introduction	424
16.2	Rate of adoption of consolidation	424
16.3	The concept of a 'group'	425
16.4	Harmonization from the 1970s onwards	427
16.5	Definitions of entities in which the group invests	430
16.6	Techniques of consolidation	433
16.7	Publication requirements and practices	439
	Summary	441
	References	441
	Questions	442
<b>17</b>	<b>Foreign currency translation</b>	<b>443</b>
	Contents	443
	Objectives	444
17.1	Introduction	444
17.2	Translation of transactions	447
17.3	Introduction to the translation of financial statements	452
17.4	The US initiative in the 1970s	455
17.5	The temporal method versus the current rate method	458

17.6	Current US GAAP	463
17.7	Current IFRS	465
17.8	Translation of comprehensive income	467
17.9	Accounting for translation gains and losses	470
17.10	Research findings	476
17.11	An alternative to exchange rates?	479
	Summary	480
	References	481
	Further reading	482
	Questions	482

## **18 Segment reporting 483**

	Contents	483
	Objectives	483
18.1	What is segment reporting?	483
18.2	Segment reporting regulations	486
18.3	Constraints on the benefits of segment reporting	496
18.4	Assessing the benefits of segment reporting	500
	Summary	508
	References	509
	Questions	512

## **Part VI MONITORING AND ENFORCEMENT**

## **19 International auditing 515**

	Contents	515
	Objectives	515
19.1	Introduction	516
19.2	Reasons for the internationalization of auditing	518
19.3	Promulgating international standards	523
19.4	The international audit process	530
	Summary	542
	References	543
	Further reading	544
	Useful websites	544
	Questions	544

<b>20 Enforcement of financial reporting standards</b>	<b>545</b>
Contents	545
Objectives	545
20.1 Introduction	545
20.2 Modes and models of enforcement	547
20.3 United States	550
20.4 European Union	551
20.5 West Pacific Rim	558
Summary	559
References	560
Useful websites	563
Questions	563
Synoptic table of accounting differences in eight GAAPs, 2015	565
Glossary of abbreviations	568
Suggested answers to some of the end-of-chapter questions	574
Author index	592
Subject index	596

## Supporting resources

Visit [www.pearsoned.co.uk/nobes](http://www.pearsoned.co.uk/nobes) to find valuable online resources

### Companion Website for students

- A mock exam of multiple choice questions to test your understanding
- Extensive links to valuable resources on the web

### For instructors

- Complete Instructor's Manual
- PowerPoint slides that can be downloaded and used for presentations

**Also:** The Companion Website provides the following features:

- Search tool to help locate specific items of content
- E-mail results and profile tools to send results of quizzes to instructors
- Online help and support to assist with website usage and troubleshooting

For more information please contact your local Pearson Education sales representative or visit [www.pearsoned.co.uk/nobes](http://www.pearsoned.co.uk/nobes)



# Contributors

## *Editors and main authors*

**Christopher Nobes** Professor of Accounting at Royal Holloway (University of London) and at the University of Sydney. He is currently an adjunct professor at the Norwegian Business School. He has also taught in Italy, the Netherlands, New Zealand, Scotland, Spain and the United States. He was the 2002 ‘Outstanding International Accounting Educator’ of the American Accounting Association. He was a member of the Accounting Standards Committee of the United Kingdom and Ireland from 1986 to 1990, and a UK representative on the Board of the International Accounting Standards Committee from 1993 to 2001. He was vice-chairman of the accounting committee of the Fédération des Experts Comptables Européens, 1993–2015.

**Robert Parker** Emeritus Professor of Accounting at the University of Exeter and former professorial fellow of the Institute of Chartered Accountants of Scotland. He has also practised or taught in Nigeria, Australia, France and Scotland and was editor or joint editor of *Accounting and Business Research* from 1975 to 1993. He was the British Accounting Association’s ‘Distinguished Academic of the Year’ in 1997, and the 2003 ‘Outstanding International Accounting Educator’ of the American Accounting Association.

## *Authors of contributed chapters*

**John Flower** Formerly, Director of the Centre for Research in European Accounting (Brussels), and earlier with the Commission of the European Communities and Professor of Accounting at the University of Bristol. He now lives in Germany. (Chapter 17)

**Graham Gilmour** Director in the Public Policy and Regulatory Affairs team at PricewaterhouseCoopers LLP in the United Kingdom. He is a member of the Transnational Auditors Committee of the IFAC Forum of Firms. (Chapter 19)

**Diana Hillier** Partner, PricewaterhouseCoopers LLP in the United Kingdom. (Chapter 19)

**Clare B. Roberts** Professor of Accounting at the University of Aberdeen Business School. (Chapter 18)

**Stephen A. Zeff** Professor of Accounting at Rice University, Houston, Texas, USA. (Chapter 10)

# Preface

## Purpose

*Comparative International Accounting* is intended to be a comprehensive and coherent text on international financial reporting. It is primarily designed for undergraduate and postgraduate courses in comparative and international aspects of financial reporting. We believe that a proper understanding requires broad overviews (as in Part I), but that these must be supported by detailed information on real countries and companies (as in Parts II–IV) and across-the-board comparisons of major topics (as in Parts V and VI).

This book was first published in 1981. This present edition (the thirteenth) is a complete updating of the twelfth edition. For example, since the last edition, the following have occurred: Brazil, Russia and South Korea have adopted IFRSs; a number of Japanese companies have volunteered to adopt IFRS; the US has ended speculation that it would adopt IFRS soon; several options have been removed from IFRSs; a major new standard on revenue recognition has been issued jointly by the IASB and the FASB; the EU Directives have been amended; old UK GAAP has been abolished and replaced with a version of IFRS for SMEs; and much relevant academic literature has been published.

In addition to the extensive updating, we have also:

- expanded the material on IFRS/US convergence, in Chapters 5 and 8;
- expanded discussion of adoption of IFRSs in smaller countries, in Chapter 5;
- moved the still-relevant material on financial analysis into Chapter 5, and then deleted the old Chapter 21;
- referred to gaps in IFRSs and how they are filled by companies, in Chapter 6; and
- expanded the material on compliance and governance, in Chapter 20.

A revised manual for teachers and lecturers is available from <http://www.pearsoned.co.uk/nobes>. It contains several numerical questions and a selection of multiple-choice questions. Suggested answers are provided for all of these and for the questions in the text. In addition, there is now an extensive set of PowerPoint slides.

## Authors

In writing and editing this book, we have tried to gain from the experience of those with local knowledge. This is reflected in the nature of those we thank below for advice and in our list of contributors. For example, the original chapter on North America was co-authored by a Briton who had been assistant research director of the US FASB; his knowledge of US accounting was thus interpreted through and for non-US readers. The amended version is by one of the editors, who has taught in several US universities. This seems the most likely way to highlight differences and

to avoid missing important points through overfamiliarity. The chapter on political lobbying is written by Stephen Zeff, an American who is widely acknowledged as having the best overview of historical and international accounting developments. The chapter on currency translation is written by John Flower, who has taught in UK universities but then worked in Brussels for the EU Commission, and now lives in Germany.

The two main authors have, between them, been employed in nine countries. Christopher Nobes currently holds university posts in Australia, Norway and the UK. Robert Parker, who retired from full-time university work in 1997, has now taken an advisory role rather than an executive one.

## Structure

Part I sets the scene for a study of comparative international financial reporting. Many countries are considered simultaneously in the introductory chapter and when examining the causes of the major areas of difference (Chapter 2). It is then possible to try to put accounting systems into groups (Chapter 3) and to take the obvious next step by discussing the purposes and progress of international harmonization of accounting (Chapter 4).

All this material in Part I can act as preparation for the other parts of the book. Part I can, however, be fully understood only by those who become well informed about the contents of the rest of the book, and readers should go back later to Part I as a summary of the whole.

Part II examines financial reporting by listed groups. In much of the world this means, at least for consolidated statements, using the rules of either the International Accounting Standards Board or the United States. In addition to an overview and chapters on these two 'systems' of accounting, Part II also contains a chapter on whether national versions of IFRS exist, one that examines major accounting topics in a comparative IFRS/US way, and one on political lobbying about accounting standards.

Part III of the book deals with financial reporting in the world's second and third largest economies (China and Japan). They share much in common, including having Roman-based commercial legal systems and having requirements for the consolidated statements of listed companies that are separate from those for other types of reporting. Neither country directly imposes IFRSs or US GAAP, although the influences of those systems have been strong. It is therefore clearer to deal with these major countries (as we do in Chapter 11) separately from those countries using IFRSs or US GAAP.

Part IV concentrates on the point raised above: that many countries have separate national rules for unlisted companies or unconsolidated statements. Chapter 12 examines a number of issues relating to the context of reporting by individual companies, e.g. the relationship between accounting and tax. It also looks at the IFRS for SMEs. Chapters 13–15 concentrate on Europe, where the world's next three largest economies (after the US, China and Japan) are located. EU harmonization is studied in Chapter 13. Then, Chapters 14 and 15 look at the making of the rules for reporting by individual companies in France, Germany and the UK, and at the content and exercise of those rules.

Part V examines, broadly and comparatively, three major group accounting topics: consolidation, foreign currency translation and segment reporting. Part VI looks at two matters that come at the end of the financial reporting process: external auditing and enforcement of the rules.

At the end of the book, there is a synoptic table of accounting differences across eight GAAPs, a glossary of abbreviations relevant to international accounting, suggested answers to some chapter questions and two indexes (by author and by subject).

## Publisher's acknowledgements

*We are grateful to the following for permission to reproduce copyright material:*

### Figures

Figure 3.1 adapted from *Accounting Review*, Supplement to Vol. 52, p. 99, Copyright © 1977 American Accounting Association, reproduced with permission of the American Accounting Association; Figure 3.2 adapted from Modes of regulation in advanced capitalism: locating accountancy in four countries, *Accounting Organizations and Society*, Vol. 12(3), p. 283 (Puxty, A.G., Willmott, H.C., Cooper, D.J. and Lowe, A.E. 1987), Copyright © 1987 Elsevier Science, reproduced with permission of Elsevier; Figure 3.4 adapted from Towards a general model of the reasons for international differences in financial reporting, *Abacus*, Vol. 34(2), pp. 162–187 (Nobes, C.W. 1998), Copyright © 2002, John Wiley and Sons; Figure 5.1 from Has Australia (or any other jurisdiction) 'adopted' IFRS?, *Australian Accounting Review*, Vol. 20(2), pp. 178–184 (Zeff, S.A. and Nobes, C.W. 2010), John Wiley and Sons, Figure 1 © 2010 CPA Australia; Figure 9.2 from *Asset Measurement Bases in UK and IASC Standards*, ACCA, London (Nobes, C.W. 2001); Figure 9.3 adapted from *Survey of Pensions and Other Retirement Benefits in EU and non-EU countries*, Federation des Experts Comptables Europeens (FEE) (1995) Routledge, London, reproduced with permission.

### Tables

Table 1.3 based on data from Maddison, A. (2001), *The World Economy: A Millennial Perspective*, Development Centre Studies, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264189980-en>; Table 1.4 after *World Investment Report 2014*, United Nations Conference on Trade and Development (UNCTAD) Copyright © 2014 United Nations, reprinted with the permission of the United Nations; Table 1.6 after <http://world-exchanges.org/statistics/annual/2009/equity-markets/number-newly-listed-and-delisted-companies>, World Federation of Exchanges; Table 1.9 after *World Investment Report 2007: Transnational Companies Extractive Industries and Development*, United Nations Conference on Trade and Development (UNCTAD) Copyright © United Nations 2007, reproduced with permission; Table 2.3 adapted from data from Datastream, by kind permission of Jon Tucker and David Bence at Bristol Business School; Table 2.8 adapted from an unpublished draft PhD thesis, University of Reading 2001, by kind permission of Felix Soria; Table 2.9 adapted from *Annual Report 2001*, Volkswagen AG p. 86, by kind permission of Volkswagen AG; Table 3.1 from How arbitrary are international accounting classifications? Lessons from centuries of classifying in many disciplines, and experiments with IFRS data, *Accounting, Organizations and Society*, Vol. 38(8), pp. 573–95 (Nobes, C.W. and

Stadler, C. 2013), Copyright © 2013 Elsevier Ltd., all rights reserved, with permission from Elsevier; Table 3.2 adapted from Different approaches to corporate reporting regulation: how jurisdictions differ and why, *Accounting and Business Research*, Vol. 40(3), pp. 229–256 (Leuz, C. 2010), Copyright © 2010 Routledge, reprinted by permission of the publisher Taylor & Francis Ltd, <http://www.tandfonline.com>, and the author; Table 3.3 adapted from The impact of disclosure and measurement practices on international accounting classifications, *Accounting Review*, Vol. 55(3), p. 429 (Nair, R.D. and Frank, W.G. 1980), © American Accounting Association; Table 5.2 adapted from *Annual Report 2006*, Bayer AG, reproduced with permission; Table 5.3 adapted from *Annual Report 2006*, Alcatel-Lucent, reprinted with permission of Alcatel-Lucent USA Inc.; Table 5.4 adapted from *Annual Report 2008*, Philips International BV p. 197; Table 5.8 adapted from *Vodafone Interim Announcement 2004*, Vodafone Group plc; Table 5.9 adapted from *Annual Report 2004*, BASF SE, Ludwigshafen, Germany p. 92; Tables 7.1, 7.2, 7.3 adapted from The survival of international differences under IFRS: towards a research agenda, *Accounting and Business Research*, Vol. 36(3), pp. 233–245 (Nobes, C.W. 2006), reprinted by permission of Taylor & Francis Ltd, [www.tandfonline.com](http://www.tandfonline.com); Table 7.4 from The continued survival of international differences under IFRS, *Accounting and Business Research*, Vol. 43(2), pp. 83–111 (Nobes, C.W. 2013), Copyright © 2013 Routledge, reprinted by permission of the publisher Taylor & Francis Ltd, <http://www.tandfonline.com>; Table 12.1 adapted from *Financial Report 2004*, BASF p. 93; Table 12.2 adapted from *Annual Report 2004*, Bayer AG p. 75, reproduced with permission; Table 14.3 from Companies House 2015, © Crown Copyright 2015 <http://www.companieshouse.gov.uk/>, contains public sector information licensed under the Open Government Licence (OGL) v3.0 <http://www.nationalarchives.gov.uk/doc/open-government-licence>; Table 18.4 from International segment disclosures by US and UK multinational enterprises: a descriptive study, *Journal of Accounting Research*, Vol. 22(1), pp. 351–360 (Gray, S.J. and Radebaugh, L.E. 1984), p. 358, republished with permission of Blackwell Publishing, Inc., permission conveyed through Copyright Clearance Center, Inc.; Table 18.5 from Geographic area disclosures under SFAS 131: materiality and fineness, *Journal of International Accounting, Auditing and Taxation*, Vol. 10(2), pp. 117–138 (Doupnik, T.S. and Seese, C.P. 2001); Table 20.1 adapted from A commentary on issues relating to the enforcement of international financial reporting standards in the EU, *European Accounting Review*, Vol. 14(1), pp. 181–212 (Brown, P. and Tarca, A. 2005)

## Text

Extracts on pages 45 and 405 from *Financial Statements 2014 and Management's Report*, BASF SE; Extract on pages 493–4 from <http://www.publishwhatyoupay.org/activities/advocacy/accounting-standards-regulations>, Copyright © PWYP; Extract on pages 494–5 from *Session document B6-0157/2007*, European Parliament © European Union, 1995–2011; Extract on page 495 from Early Day Motion 1369, [www.parliament.uk](http://www.parliament.uk), © Parliamentary Copyright, contains Parliamentary information licensed under the Open Parliament Licence v3.0.

In some instances we have been unable to trace the owners of copyright material, and we would appreciate any information that would enable us to do so.

## Other acknowledgements

In the various editions of this book, we have received great help and much useful advice from many distinguished colleagues in addition to our contributors. We especially thank Sally Aisbitt (deceased); Ignace de Beelde of Ghent University; Dr Ataur Rahman Belal, Aston Business School, Aston University; Andrew Brown of Ernst & Young; Emmanuel Charrier of Paris Dauphine; John Carchrae of the Ontario Securities Commission; Terry Cooke of the University of Exeter; John Denman and Peter Martin of the Canadian Institute of Chartered Accountants; Brigitte Eierle of Bamberg University; Maria Frosig and Niels Brock of Copenhagen Business School, Denmark; Simon Gao of Edinburgh Napier University; Michel Glautier of ESSEC, Paris; Christopher Hossfeld of ESCP, Paris; Dr Jing Hui Liu, University of Adelaide, Australia; Horst Kaminski, formerly of the Institut der Wirtschaftsprüfer; Jan Klaassen of the Free University, Amsterdam; Christopher Koch of the University of Mannheim; Stéphanie Tulleau Kontowicz of the University of Bordeaux; Yannick Lemarchand of the University of Nantes; Ken Lemke of the University of Alberta; Klaus Macharzina of the University of Hohenheim; Rania Uwaydah Mardini of Olayan School of Business, American University of Beirut; Malcolm Miller and Richard Morris of the University of New South Wales; Geoff Mitchell, formerly of Barclays Bank; Jules Muis of the European Commission; Ng Eng Juan of Nanyang Technological University of Singapore; Graham Peirson of Monash University; Sophie Raimbault of Groupe ESC, Dijon; Jacques Richard of the University of Paris Dauphine; Alan Richardson of York University, Toronto; Alan Roberts of ESC Rennes School of Business; Paul Rutteman, formerly of EFRAG; Etsuo Sawa, formerly of the Japanese Institute of Certified Public Accountants; Hein Schreuder, formerly of the State University of Limburg; Marek Schroeder of the University of Birmingham; Patricia Sucher, formerly of Royal Holloway, University of London; Christian Stadler of the University of Lancaster; Lorena Tan, formerly of Price Waterhouse, Singapore; Ann Tarca of the University of Western Australia; Stéphane Trébuçq of the University of Bordeaux; Peter van der Zanden, formerly of Moret Ernst & Young and the University of Tilburg; Gerald Vergeer of Moret Ernst & Young; Ruud Vergoossen of Royal NIVRA and the Free University of Amsterdam; Jason Xiao, Cardiff University; Dr Yap Kim Len, HELP University College, Malaysia; and Eagle Zhang of the University of Sydney. We are also grateful for the help of many secretaries over the years.

Despite the efforts of all these worthies, errors and obscurities will remain, for which we are culpable jointly and severally.

Christopher Nobes  
*Royal Holloway, and University of Sydney*  
 Robert Parker  
*University of Exeter*

This page intentionally left blank





## Part I

# SETTING THE SCENE



This page intentionally left blank

# 1

## Introduction

### CONTENTS

- 1.1 Differences in financial reporting
  - 1.2 The global environment of accounting
    - 1.2.1 Overview
    - 1.2.2 Accounting and world politics
    - 1.2.3 Economic globalization, international trade and foreign direct investment
    - 1.2.4 Globalization of stock markets
    - 1.2.5 Patterns of share ownership
    - 1.2.6 The international financial system
  - 1.3 The nature and growth of MNEs
  - 1.4 Comparative and international aspects of accounting
  - 1.5 Structure of this book
    - 1.5.1 An outline
    - 1.5.2 Part I: Setting the scene
    - 1.5.3 Part II: Financial reporting by listed groups using IFRS or US GAAP
    - 1.5.4 Part III: China and Japan
    - 1.5.5 Part IV: Financial reporting by individual companies
    - 1.5.6 Part V: Group accounting issues in reporting by MNEs
    - 1.5.7 Part VI: Monitoring and enforcement
- Summary  
References  
Useful websites  
Questions

### OBJECTIVES

After reading this chapter, you should be able to:

- explain why international differences in financial reporting persist, in spite of the adoption of International Financial Reporting Standards (IFRS) by Australia, Brazil, Canada, the member states of the European Union and many other countries;
- illustrate the ways in which accounting has been influenced by world politics, the growth of international trade and foreign direct investment, the globalization of stock markets, varying patterns of share ownership, and the international monetary system;
- outline the nature and growth of multinational enterprises (MNEs);
- explain the historical, comparative and harmonization reasons for studying comparative international accounting.

## 1.1 Differences in financial reporting

If several accountants from different countries, or even from one country, are given a set of transactions from which to prepare financial statements, they will not produce identical statements. There are many reasons for this. First, the accounting rules may differ between countries and also within countries. In particular the rules for company groups may differ from the rules for individual companies. Multinational enterprises (MNEs) which operate as company groups in more than one country may find inter-country differences particularly irksome. Also, although all accountants follow a set of rules, no set covers every eventuality or is prescriptive to the minutest detail. Thus, there is always room for professional judgement, the exercise of which depends in part on the accountants' environments (e.g. whether or not they see the tax authorities as the main users of financial statements).

Awareness of these differences in financial reporting has led to impressive attempts to reduce them – in particular, by the International Accounting Standards Board (IASB) and by the European Union (EU). The IASB issues International Financial Reporting Standards (IFRS). The EU has issued Directives and Regulations. The importance of American stock markets and US-based MNEs has meant that US generally accepted accounting principles (GAAP) have greatly influenced rule-making worldwide. All this has certainly led to a lessening of international differences but, as this book will show, many still remain.

An example of the differences is provided by looking at the reports of GlaxoSmithKline (GSK), a large UK-based pharmaceutical company. GSK reported under UK GAAP until 2004, and used IFRS from 2005. GSK is listed in New York as well as on the London Stock Exchange, and in accordance with requirements of the US Securities and Exchange Commission (SEC) it had to provide up to 2006 reconciliations of its earnings and shareholders' equity to US GAAP. The differences, as disclosed in Tables 1.1 and 1.2, are startling. Data from other such reconciliations

**Table 1.1** GlaxoSmithKline reconciliations of earnings to US GAAP

	UK £m	IFRS £m	US £m	Difference (% change)
1995	717		296	-59
1996	1,997		979	-51
1997	1,850		952	-49
1998	1,836		1,010	-45
1999	1,811		913	-50
2000	4,106		(5,228)	-227
2001	3,053		(143)	-105
2002	3,915		503	-87
2003	4,484		2,420	-46
2004	4,302		2,732	-36
2005		4,816	3,336	-31
2006		5,498	4,465	-19

**Table 1.2** GlaxoSmithKline reconciliations of shareholders' equity to US GAAP

	UK £m	IFRS £m	US £m	Difference (% change)
1995	91		8,168	+8,876
1996	1,225		8,153	+566
1997	1,843		7,882	+328
1998	2,702		8,007	+196
1999	3,142		7,230	+130
2000	7,517		44,995	+499
2001	7,390		40,107	+443
2002	6,581		34,992	+432
2003	5,059		34,116	+574
2004	5,925		34,042	+475
2005		7,570	34,282	+353
2006		9,648	34,653	+259

are given later in this book. Not all are as extreme as those of GSK, but it is clear that the differences can be very large and that no easy adjustment procedure can be used. One reason for this is that the differences depend not only on the differences between two or more sets of rules, but also on the choices allowed to companies within those rules. The adoption of IFRS by listed companies within the EU from 2005 onwards, and greater convergence between those standards and US GAAP, has reduced – but not removed – these differences. Unfortunately, published reconciliations are unusual after 2006, so the size of the differences cannot be assessed so easily.

Understanding why there have been differences in financial reporting in the past, why they continue in the present, and will not fully disappear in the future, is one of the main themes of comparative international accounting. In the next two sections of this chapter, we look at the global environment of financial reporting, and in particular at the nature and growth of multinational enterprises. We then explore in more depth the reasons for studying comparative international accounting. In the last section we explain the structure of the book.

## 1.2 The global environment of accounting

### 1.2.1 Overview

Accounting is a technology which is practised within varying political, economic, and social contexts. These have always been international as well as national. Certainly since the last quarter of the twentieth century, the globalization of accounting rules and practices has become so important that narrowly national views of accounting and financial reporting can no longer be sustained.

Particularly important parts of the context have been:

- major political issues, such as the dominance of the United States and the expansion of the EU;
- economic globalization, including the liberalization of, and dramatic increases in, international trade and foreign direct investment;
- the emergence of global financial markets;
- patterns of share ownership, including the influence of privatization;
- changes in the international financial system;
- the growth of MNEs.

These developments are interrelated and all have affected financial reporting and the transfer of accounting technology from one country to another. They are now examined in turn.

### 1.2.2 Accounting and world politics

Important political events since the end of the Second World War in 1945 have included: the emergence of the United States and the Soviet Union as the world's two superpowers, followed by the collapse of Soviet power at the end of the 1980s; the break-up of the British and continental European overseas empires; and the creation of the EU, which has expanded from its original core of six countries to include, among others, the UK and many former communist countries. More detail on the consequences that these events have had for accounting is given in later chapters, particularly Chapters 4, 5, 11 and 13. The following illustrations may suffice for the moment:

- US ideas on accounting and financial reporting have been for many decades, and remain, the most influential in the world. The collapse of the US energy trading company, Enron, in 2001, and the demise of its auditor, Andersen, had repercussions in all major economies.
- The development of international accounting standards (at first of little interest in the US) owes more to accountants from former member countries of the British Empire than to any other source. The International Accounting Standards Committee (IASC) and its successor, the IASB, are based in London; the driving force behind the foundation of the IASC, Lord Benson, was a British accountant born in South Africa.
- Accounting in developing countries is still strongly influenced by the former colonial powers. Former British colonies tend to have Institutes of Chartered Accountants (set up after the independence of these countries, not before), Companies Acts and private sector accounting standard-setting bodies. Former French colonies tend to have detailed governmental instructions, on everything from double entry to published financial statements, that are set out in national accounting plans and commercial codes.
- Accounting throughout Europe has been greatly influenced by the harmonization programme of the EU, especially its Directives on accounting and, more recently, its adoption of IFRS for the consolidated financial statements of listed companies.

- The collapse of communism in Central and Eastern Europe led to a transformation of accounting and auditing in many former communist countries. The reunification of Germany put strains on the German economy such that large German companies needed to raise capital outside Germany and to change their financial reporting in order to be able to do so.

### 1.2.3 Economic globalization, international trade and foreign direct investment

A notable feature of the world economy since the Second World War has been the globalization of economic activity. This has meant the spreading round the world not just of goods and services but also of people, technologies and concepts. The number of professionally qualified accountants has greatly increased. Member bodies of the International Federation of Accountants (IFAC) currently have well over two million members. Accountants in all major countries have been exposed to rules, practices and ideas previously alien to them.

Much has been written about globalization and from many different and contrasting points of view. One attractive approach is the ‘globalization index’ published annually in the journal *Foreign Policy*. This attempts to quantify the concept by ranking countries in terms of their degree of globalization. The components of the index are: political engagement (measured, inter alia, by memberships of international organizations); technological connectivity (measured by internet use); personal contact (measured, inter alia, by travel and tourism and telephone traffic); and economic integration (measured, inter alia, by international trade and foreign direct investment). The compilers of the index acknowledge that not everything can be quantified; for example, they do not include cultural exchanges. The ranking of countries varies from year to year but the most globalized countries according to the index are small open economies such as Singapore, Switzerland and Ireland. Small size is not the only factor, however, and the top 20 typically also includes the US, the UK and Germany. A possible inference from the rankings is that measures of globalization are affected by national boundaries. How different would the list be if the EU were one country and/or the states of the US were treated as separate countries?

From the point of view of financial reporting, the two most important aspects of globalization are international trade and foreign direct investment (FDI) (i.e. equity interest in a foreign enterprise held with the intention of acquiring control or significant influence). Table 1.3 illustrates one measure of the liberalization and growth of international trade: merchandise exports as a percentage of gross domestic product (GDP). Worldwide, the percentage has more than trebled since the end of the Second World War. The importance of international trade to member states of the EU is particularly apparent; much of this is intra-EU trade. At the regional level, economic integration and freer trade have been encouraged through the EU and through institutions such as the North American Free Trade Area (NAFTA) (the US, Canada and Mexico). The liberalization has also been due to the dismantling of trade barriers through ‘rounds’ of talks under the aegis of the General Agreement on Tariffs and Trade (GATT) and its successor the World Trade Organization (WTO). However, trade was under threat in 2008–9 for two connected reasons: (i) the ‘credit

**Table 1.3** Merchandise exports as a percentage of gross domestic product, 1950–98

	1950	1973	1998
France	7.7	15.2	28.7
Germany	6.2	23.8	38.9
Netherlands	12.2	40.7	61.2
United Kingdom	11.3	14.0	25.0
Spain	3.0	5.0	23.5
Brazil	3.9	2.5	5.4
Mexico	3.0	1.9	10.7
United States	3.0	4.9	10.1
China	2.6	1.5	4.9
India	2.9	2.0	2.4
Japan	2.2	7.7	13.4
World	5.5	10.5	17.2

Source: Based on data from Maddison, A. (2001), *The World Economy: A Millennial Perspective*, Development Centre Studies, OECD Publishing, Paris

crunch' and falling demand reduced trade; and (ii) rising unemployment led to calls for domestic industries to be protected against foreign imports.

One area in which trade is insufficiently liberalized is agricultural products, leading to the criticism that liberalization has benefited developed rather than developing countries. For a discussion of both the positive and negative aspects of international trade, see Finn (1996).

The importance of FDI is illustrated in Table 1.4, which ranks the ten leading MNEs by the size of their foreign assets. It also shows the percentages of their assets, sales and employees that are foreign, and a simple transnationality index (TNI), calculated as the average of the percentages. The home countries of these MNEs are the UK (three MNEs), the US (three), France, Germany, Italy and Japan (one each). The industries represented are oil (six MNEs), motor vehicles (two), electrical equipment (one) and telecommunications (one). Vodafone, Total and Shell have the highest transnationality indices. Of course, the very nature of an MNE means that the concept of a 'home country' can be ambiguous. For example, in Table 1.4, we show Royal Dutch Shell plc as a UK company, as in the source of the data. The company is, indeed, incorporated in England and Wales. However, here are some other facts about it:

- the word 'Dutch' (and the 'Royal' which relates to the Netherlands not the UK) reflect a former merger;
- its head office is in the Netherlands, as is its tax residency;
- it is listed on stock exchanges in Amsterdam, London and New York;
- it presents its financial statements in US dollars;
- it has operations in 90 countries and shareholders all over the world.

**Table 1.4** World's top ten non-financial multinationals ranked by foreign assets, 2013

Company	Country	Industry	Foreign assets (US \$bn)	% that is foreign of			
				Assets	Sales	Employees	TNI
General Electric	US	Electrical	331	50	52	44	49
Royal Dutch Shell	UK	Oil	302	84	61	73	73
Toyota Motor	Japan	Motors	274	68	67	41	57
Exxon Mobil	US	Oil	231	67	67	60	63
Total	France	Oil	227	95	77	66	80
BP	UK	Oil	202	66	66	77	70
Vodafone	UK	Telecoms	182	90	85	91	89
Volkswagen	Germany	Motors	176	40	81	55	59
Chevron	US	Oil	175	69	58	50	59
Eni	Italy	Oil	141	74	72	67	71

Note: TNI = transnationality index, calculated as an average of the assets, sales and employees percentages.

Source: Compiled by the authors from data in UNCTAD (2014) *World Investment Report 2014*.

Despite this interesting mix, its choice of England as country of incorporation has some major effects, such as:

- the annual report is presented under UK law;
- the auditors (pwc, London) are appointed under UK law;
- the calculation of distributable profit is done under UK law; and
- the UK corporate governance code is followed.

### 1.2.4 Globalization of stock markets

At the same time as international trade and FDI have increased, capital markets have become increasingly globalized. This has been made possible by the deregulation of the leading national financial markets (e.g. the 'Big Bang' on the London Stock Exchange in 1986, and the similar event in Japan in 1998); the speed of financial innovation (involving new trading techniques and new financial instruments of sometimes bewildering complexity); dramatic advances in the electronic technology of communications; and growing links between domestic and world financial markets. Table 1.5 lists the countries where there are stock exchanges with more than 500 domestic listed companies and also a market capitalization (excluding investment funds) of more than US\$1,000 billion. Of the five BRICS countries (Brazil, Russia, India, China and South Africa), only China and India are represented.

Davis *et al.* (2003) examine the international nature of stock markets from the nineteenth century onwards, and chart the rise in listing requirements on the London, Berlin, Paris and New York exchanges. Michie (2008) also provides an international history of stock markets. Precise measures of the internationalization of the world's stock markets are hard to construct. Two crude measures are cross-border listings and the extent to which companies translate their annual reports into other languages for