# *Preface*

This is undoubtedly a demanding time for practitioners and students of financial reporting. Accountants and business people in European Union countries need to master not only their national regulations but also the rules of the International Accounting Standards Board. Both sets of rules are voluminous, ever growing and presently undergoing a process of rapid change as a consequence of the convergence programme designed to bring national and international standards into line with one another.

The ASB, in the UK, has developed its *Statement of Principles for Financial Reporting*, a conceptual framework designed to underpin the development of accounting standards which adopts a rather different view from that of the accruals-based approach of traditional financial accounting. However, some of the principles are inconsistent with present company law and several of the Financial Reporting Standards in issue are inconsistent with the *Statement of Principles*. Company law is presently under review, with the publication of a White Paper which proposes major changes to the mechanism for setting and enforcing accounting rules in the UK. Once the law is changed, then it will be necessary to change numerous Financial Reporting Standards. It can perhaps be seen that the failure in the past to develop a generally-agreed theory underpinning financial accounting is not without its practical costs.

A 2002 EU Regulation requires all quoted companies in Europe to prepare their consolidated financial statements in accordance with international standards, rather than national standards, by the year 2005. Accounting rule setters in the various member states are attempting, with varying degrees of enthusiasm, to achieve convergence between their own standards and those of the IASB, but this process is difficult to achieve because of considerable, often major, differences between the respective standards and because the IASB is itself revising a large number of standards as part of its improvements project. National standard setters are therefore in the uncomfortable position of shooting at a moving target.

The EU Regulation applies only to the consolidated financial statements of quoted companies, although member states may permit, or require, the use of international standards in the single-entity financial statements of those companies as well as in both the single entity and consolidated financial statements of unquoted companies. At the time of writing it is unclear whether the various member states will require universal application of international standards or whether two sets of standards, national and international, will co-exist for application to different financial statements in the same country. In the view of the authors, even the consolidated financial statements of quoted companies in different EU countries are unlikely to be comparable until long after 2005, let alone the financial statements of unquoted companies.

While the world's standard setters still have their disagreements, most of them seem to suffer from the same condition – asking for more and more about what is in relative terms less and less. The phrase 'knowledge economy' might have become a stale cliché but it still has a relevance in that the major assets of an increasing number of businesses are knowledge and expertise rather than physical assets. Yet standard setters have poured far more of their energies into the production of longer and ever more detailed standards relating to tangible assets than they have to the critical questions of how an entity should report on the extent to which it has invested in enhancing its store of knowledge and what it has done to protect that store, for example through its staffing policies.

Another disappointing feature of the shared practices of standard setters is their reluctance to move away from the view that there is one and only one way of valuing an asset or a liability that should be reported. The standard setters argue that it would be confusing to report both the replacement cost and historical cost of an asset or the market value and original value of a liability. One of their strongest arguments is that the users of financial statements would not understand the different bases but, at the same time, they issue standards of such detail and complexity that the layperson attempting to interpret financial statements can now no longer even see the trees; the wood disappeared some while ago.

The practice of providing very detailed information about what is such a limited range of assets and liabilities does suggest that financial accounting practice is an area where, increasingly, spurious accuracy reigns.

We are grateful for the permission of the Accounting Standards Board to reproduce extracts from their large list of publications. As in previous editions, we have included a selection of questions from the professional examination papers of the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants and the Institute of Chartered Accountants in England and Wales. We gratefully acknowledge the permission of these three bodies to reproduce their questions, although we are disappointed that the ACCA will not permit us to include questions set in the two years preceding publication of the book, even though those questions are available on their website. We have chosen to include questions based on UK standards but would emphasise that both the ACCA and CIMA set alternative examination papers based on international accounting standards, should readers wish to make use of these.

A downloadable *Solutions Manual*, prepared by John Wyett, to whom both the authors and readers of this text owe a considerable debt, is available to Lecturers on the password-protected website to the book, **www.booksites.net/lewispendrill**, where we intend also to publish annual *Updates*.

As always, we wish to thank our long-suffering wives, Pamela and Louise, for all their help in reading and commenting on draft chapters and checking proofs, and for reminding us in such positive tones that there is a life beyond *Advanced Financial Accounting*.

RWL
DP