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# INTRODUCTION TO FINANCIAL ACCOUNTING

# 财务会计入门

(第4版)

Christopher W. Nobes



经济科学出版社  
Economic Science Press

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Financial Accounting**

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# INTRODUCTION TO FINANCIAL ACCOUNTING

Fourth edition

Christopher W. Nobes

*University of Reading, UK*



INTERNATIONAL THOMSON BUSINESS PRESS  
ITP® An International Thomson Publishing Company

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London • Bonn • Boston • Johannesburg • Madrid • Melbourne • Mexico City • New York • Paris  
Singapore • Tokyo • Toronto • Albany, NY • Belmont, CA • Cincinnati, OH • Detroit, MI

**图书在版编目 (CIP) 数据**

财务会计入门 / (英) 诺贝斯 (Nobes, C.) 著. — 影  
印本. — 北京: 经济科学出版社, 2003.2  
ISBN 7-5058-3398-7

I. 财… II. 诺… III. 财务会计 - 英文  
IV. F234.4

中国版本图书馆 CIP 数据核字 (2003) 第 008535 号

责任编辑: 凌 敏

技术编辑: 李长建

**财务会计入门**

(第四版)

Christopher W. Nobes 著

经济科学出版社出版、发行 新华书店经销

社址: 北京海淀区阜成路甲 28 号 邮编: 100036

总编室电话: 88191217 发行部电话: 88191540

网址: [www.esp.com.cn](http://www.esp.com.cn)

电子邮件: [esp@esp.com.cn](mailto:esp@esp.com.cn)

北京密兴印刷厂印装

787×1092 16 开 16 印张 300000 字

2003 年 3 月第一版 2003 年 3 月第一次印刷

印数: 0001—3000 册

ISBN 7-5058-3398-7/F·2742 定价: 26.00 元

(图书出现印装问题, 本社负责调换)

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# 出版说明

21 世纪已经到来,以加强外语为新世纪人才特征的新一轮教育改革方兴未艾,“双语教学”成为热门主题,成为推进素质教育的又一项重要内容。国家教育部在 2002 年提出加强大学本科教学的 12 项措施,其中要求各高校在三年内开设 5%~10% 的双语课程,并引进原版教材和提高师资水平。为了推动“双语教学”的开展,经济科学出版社将引进一系列英语版教材,适用于高等院校财经类专业。

我们引进的《财务会计入门》(第 4 版),由美国汤姆森学习出版集团授权经济科学出版社在我国独家出版。汤姆森学习出版集团是全球最大的教育出版集团之一,其出版的各个层次的教材深受美国及世界很多国家的读者欢迎。

《财务会计入门》分四部分,阐述了财务会计的基础知识,共十六章。第一部分为引言,包括会计职能、会计人员和会计理论等;第二部分为会计方法,包括价值与利润、资产负债表、收入与费用、折旧和存货等;第三部分为企业会计,包括合伙关系、公司财务、公司财务报告和 International Financial Accounting 等;第四部分为财务信息,包括获利能力和变现能力等。每章后均有自测题和指导题(书后附有答案),帮助学生学习、巩固每章讲述的内容,以提高学生的实际操作能力和运用技术方法的熟练程度。

2003 年 1 月

# PREFACE TO THE FOURTH EDITION

This introductory textbook in financial accounting is intended primarily for undergraduate students in universities. However, it is hoped that parts of it may also be appropriate for use with other books for other academic or professional courses.

There are several matters relating to the structure and content of introductory textbooks on which the opinions of academic accountants differ. First, the scope of first-year courses and books varies considerably. This book deals mainly with financial accounting and those parts of business finance which fit most closely with it. There are many good introductory textbooks on management accounting that could be used with this book for courses that cover a wider area than financial accounting.

The degree to which double-entry bookkeeping is covered in introductory courses varies greatly too. This book does not base its explanation of accounting on double entry, as some do, but it does provide a fairly lengthy outline of it, after the nature of asset valuation and income measurement have been introduced at some length.

A further difference between introductory textbooks concerns the extent to which practice is discussed. This book discusses accounting standards and quotes figures from surveys of accounting practice at appropriate points. Because accounting for changing prices has been an important area of research and has had significant practical effects on published financial statements, this area is also examined.

In trying to determine the appropriate balance on the above issues I have gratefully received much assistance from a number of colleagues and students who have read various drafts of some or all of the book. These readers have also made detailed comments, and many changes have been made as a result. In particular I would like to acknowledge Margaret Crawford's assistance with Chapter 8. I cannot claim about the writing, then, that it is all my own, but I can make such a claim about any remaining unfortunate biases, mistakes or obscurities.

This edition has been up-dated to include the many major developments in accounting up to early 1997. Self-assessment and tutorial questions have now been included at the end of each chapter, with suggested answers to the former provided at the end of the book.

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# INTRODUCTION

# 1

Accounting is a very ancient art. Archaeological investigation shows that wherever a sophisticated and organized society has developed, some form of accounting has been present. In many cases records of expenditure or taxation are the most important relics of a once mighty civilization. 'Keeping account' has always been part of an ordered society, 'giving account' has always been the duty of chancellors and stewards and 'auditing' (or hearing) of these accounts has been a requirement of kings and lords (and, later, of the owners of industry). This need to keep and give account was an important stimulus in the development of writing and arithmetic.

The essential purpose of accounting is therefore to communicate relevant financial information to interested persons. The original nature of accounting was concerned with explaining what *had* happened – how stewards had collected and used their lords' money. This *accountability* or *stewardship* role now applies as much to directors and shareholders as it did to stewards and lords. However, other uses for financial information have also become important. The owners of businesses may wish to compare their success with that of other businesses, and they may wish to use financial information to make decisions about the future. Other parties (e.g. lenders, employees and tax authorities) have other uses for financial information.

This chapter looks at the different functions of accounting, and outlines the structure within which they will be discussed in this book. There are also sections on the accountancy profession, the institutional context of accounting, and the nature of accounting theory.

## 1.1 Accounting functions

The central concerns of accounting are with the valuation of assets and the measurement of profit. There are many difficult problems of definition in these areas, some of which will be discussed in the early chapters of the book. Having already identified the main function of accounting as the communication of financial information, it is clear that a subsidiary function of capturing the relevant data is necessary. This recording or memory function of accounting developed into the 'Italian method' of *double-entry bookkeeping* by the early fourteenth century. The method is still used in a very similar manner today. However, the method of bookkeeping used is not fundamental to the definitions of value and profit. It does not determine the accounting conventions used. That is why, in contrast with the layout of some books and courses, in *this* book the fundamental measurement problems will be discussed before bookkeeping, out of the context of any

## 2 Introduction to financial accounting

particular method, which is just the initial recording of the relevant economic events that can be quantified in money terms.

However, the information on double-entry bookkeeping in Chapters 7 and 8 should prove useful for understanding the rest of accounting, which now covers a much larger area. Some of this larger area is the province of Parts II and III.

Part II deals with the presentation and publication of accounting information. Chapter 9 looks at accounting for partnerships, Chapters 10 and 11 at accounting for companies. These two chapters on companies discuss the relevant law, some taxation matters, the types of owners and capital raising, as well as the publication and audit of financial statements. If accounting information is to be used for decision-making rather than for stewardship reporting, it may be better if based on current costs and prices. Whole new underlying frameworks for accounting have been suggested to take account of inflation and relative price changes. These will be examined in Chapter 12.

All the matters of Part II can be looked at again on a comparative international basis. This is useful in that it puts UK accounting into perspective, opens the door for further study and provides indications of the direction of future changes. Chapter 13 will look at the influences that have caused international diversity, the nature of the differences in accounting and reporting, and the progress of harmonization.

Another function of accounting is to assist in the interpretation of financial statements. This is necessary before economic decisions can be made. Part III will look at measures of profitability (Chapter 14), liquidity (Chapter 15) and the worth of a business (Chapter 16).

An area of accounting that has developed particularly rapidly in the twentieth century is management accounting. This concerns the use of accounting data to aid decision-making by managers about the allocation and management of the resources of a business. Accounting can provide information for planning and control, for investment appraisal and so on. Management accounting is different from financial accounting in many important ways. It is concerned with providing information to insiders (not outsiders), it generally looks forwards (not backwards), it must rely on estimates (not historical facts) and it is largely a product of twentieth-century America (not Renaissance Italy and later European development). This large area of accounting is not covered in this book. Good introductions to management accounting are available elsewhere.

### 1.2 Accountants

The diversity in the work performed by accountants reflects the wide range of functions of accounting discussed above. There are over 200,000 qualified accountants in the United Kingdom. By international standards this is a high proportion of the population (see Chapter 13). Accountants are

engaged in the preparation of accounts for all types of businesses and public institutions, auditing the accounts of companies and public authorities, advising about and calculating personal and corporate taxation, preparing accounting information for managers, acting as management consultants and teaching and researching in accounting.

An important divide between accountants is that some are in private professional practice as members of firms of accountants who work for clients, and others are in the direct employment of organizations that require accounting services.

There are six important professional accountancy bodies in the United Kingdom and Ireland. These are the three Institutes of Chartered Accountants – that in England and Wales (ICAEW), that of Scotland (ICAS) and that in Ireland (ICAI) – the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants and the Chartered Institute of Public Finance and Accountancy. These bodies act together on a number of matters through the Consultative Committee for the Accountancy Bodies (CCAB). This body liaises with the government, the Inland Revenue, the European Commission and so on. One very important function of the profession concerns the setting of auditing standards through the Auditing Practices Board, which issues auditing standards.

The technical rules of accounting valuation and measurement are to be found mainly in company law and in accounting standards. The latter were once set by a committee of the CCAB, the Accounting Standards Committee. However, from 1990, an independent committee, the Accounting Standards Board, has been setting standards.

### 1.3 Institutional context

This book is largely concerned with financial reporting in the United Kingdom, and particularly with the annual financial reporting of companies. The context within which companies operate is discussed at some length in Chapters 10 and 11. However, a short introduction is necessary here in order to understand the chapters before that.

Since 1844, British Companies Acts have regulated some aspects of corporate financial reporting, and special Acts relating to banks, railways etc. provided regulations before that. At present the Companies Act 1985, as subsequently amended, establishes rules for the preparation, contents, presentation, audit and publication of accounts. Directors of companies are responsible for arranging these matters, and for ensuring that the financial statements give 'a true and fair view' of the state of affairs and profit and loss of a company. This is discussed further later.

Many of the details of the rules for accounting are to be found outside the law. As has been said, the most important source of such rules is accounting standards. These are not binding on directors, but are highly

## 4 Introduction to financial accounting

persuasive, particularly as directors are required by law to disclose departures and auditors are required to use them by their professional bodies.

Unlike the case in most continental European countries, the rules of taxation are of small importance for British financial reporting. Accounting rules were established before tax rules, and the calculation of taxable income is a separate activity which starts from accounting figures but involves many adjustments.

### 1.4 Accounting theory

The word 'theory' in accounting is sometimes used to express a concept that occupies a very different place from theory in the natural sciences, or even from its place in such a social science as economics. In a natural science a theory is developed to explain how things *are* and why they behave as they do. In accounting, theory can be *positive* in this way, but it can mean something *normative* (e.g. the body of invented conventions that have evolved over centuries and are now used to determine what behaviour *should be*). To a large extent accounting practice does not follow one consistent underlying normative theory of how assets should be valued, how income should be measured and so on. However, academic accountants and others have criticized this weakness and made suggestions; the Accounting Standards Board has been drafting such a framework in the 1990s.

Theoretical research and experimentation in this area have been particularly concerned with whole new underlying frameworks for accounting, which have been suggested to take account of inflation and relative price changes. There is also a practical scientific side to accounting research. Research is carried out using analytical and empirical methods to discover and explain the behaviour of companies, investors and managers, the way in which accounting practices have developed, and the effects of different practices. For these purposes, theories and models are proposed and tested in a similar way to other scientific research.

### Self-assessment questions

Suggested answers to the self-assessment questions are given at the end of the book.

1. Management accounting is:

- (a) Any financial work done by managers instead of by accountants.
- (b) Work done by accountants to aid the decisions of managers.
- (c) Any work done by accountants inside a corporation.