



External financial reporting

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Chapter preview

In this chapter we examine the structure and content of the primary financial statements. Originally these were the balance sheet and, later, the profit and loss account. However, in more recent years cash flow statements have also come to be regarded as one of the principal accounting statements. We will see that the purpose of these primary financial statements is that of providing information to their users about the financial position, performance and adaptability of the reporting entity. We will base our discussions on the provisions of the 2006 IASB financial reporting standards.

Attention will be paid to the ways in which accountants classify and present information in financial statements – including the distinction between fixed and current assets in balance sheets, and the debate regarding the nature and disclosure of unusual items in the profit and loss account.

Reference will also be made to the regulation of financial statements, via influence of legislation and the (influential) statements of professional accountancy bodies. Emphasis is also placed on the need for financial statements to provide an effective communication channel accessible to interested parties and the concept of financial adaptability.