starting point, and some of the deficiencies of the first edition have been eliminated. What we need now is an unbiased discussion focusing on material issues as well as a spirit of accepting “new and foreign solutions.”

Reviewed by Giorgio Behr
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This well-written textbook covers much more than the title implies. Although it is written for financial reporting and analysis, most of the book would make a great international accounting text. This textbook’s strength is that it encourages students to look at cultural backgrounds in order to understand financial reporting; however, its weakness is that it requires a strong US financial reporting background. As a consequence, US-trained analysts, accountants, and educators would derive the most benefit from this textbook’s approach.

In Part I (Chapters 1–3), the book begins with a comprehensive background of international financial reporting. It includes the cultural aspects related to accounting, professional standard-setting organizations, and financial reporting in the European Union. Part II (Chapters 4–6) discusses financial statement analysis. Part III (Chapters 7–13) provides detail regarding environmental factors, selected financial reporting practices, and analytical considerations in seven selected countries.

Chapter 1 (“Accounting and Its Global Contexts”) uses Hofstede’s cultural framework to help students understand how “collective mental programming” (1) affects beliefs and attitudes; (2) is reflected in a country’s legal, political, and business environments; and therefore (3) influences that country’s accounting and financial reporting. In this chapter, the authors expand on Hofstede’s cultural research by integrating several related research studies. This chapter explores Hofstede’s cultural analysis, including examples, in the seven countries that are further developed in Part III of the text. This is one of my favorite chapters, as it is well written and clearly demonstrates the importance of understanding the cultural background of a country to be able to understand its financial reporting.

Chapter 2 is titled “Harmonization of International Accounting and Reporting Standards,” and it examines harmonization and the effect of capital and information flows. Students are introduced to, and given examples of, reporting strategies, from “convenience translations” to “world standard reports”: the various ways in which multinationals cope with the absence of a universally accepted set of accounting standards. The relevant political organizations (United Nations, OECD) and professional organizations (IASC and IFAC), and a federation of securities market regulators (IOSCO), are introduced and discussed. This chapter also comments on selected IASC standards.

The concentration in Part II is on fundamental analysis. While Chapters 1 through 3 are outstanding chapters on international accounting or financial statement analysis, the focus changes in Chapter 4 to strictly financial statement analysis, and the audience changes to one that must be skilled in both accounting and finance. One drawback common to the three financial statement chapters is that the end-of-chapter material concentrates on procedural rather than contextual exercises. Much of the work entails recasting financial statements to compare them with US GAAP.

Chapter 4 (“Financial Statement Analysis: An Overview”) focuses on detailed ratio (du Pont) analysis, and it includes lessons in projecting financial results and valuing ownership interests.

Chapter 5 (“Special Issues in Financial Analysis”) concentrates on data comparability issues and techniques that are used to try to compare the information found in non-US financial statements with US GAAP. Several examples are provided that display the journal entries that would be made to adjust non-US statements to US GAAP. To fully understand this chapter, students should have a strong background in accounting, probably including work through the advanced accounting level.

Chapter 6 (“Accounting for Foreign Operations”) provides a nice introduction to foreign operations by examining foreign exchange transactions, the mechanics of exchange rates, and hedging, and gives a brief overview of SFAS No. 133. Accounting for foreign subsidiaries and SFAS No. 52 are also covered.

Each of the seven chapters in Part III, which constitutes one-half of the book, introduces a country and includes an introduction to environmental factors, selected financial reporting practices, and analytical considerations for that country. The countries, Great Britain, Germany, Japan, Sweden, Mexico, South Korea, and Italy, were chosen to represent a broad spectrum of beliefs and to open the students’ minds to how the cultural, legal, and political environments shape the business environment. Each chapter introduces the selected country, and discusses its cultural environment followed by its legal, political, and business environments. The section on the business environment includes forms of business, reporting, and audit requirements, the accounting profession, and the capital markets. Each chapter addresses the communication (or lack thereof) between the companies and their stakeholder constituencies, and it concludes with a summarized update on recent political and economic activity. An excellent list of further readings is also included for each chapter. The chapter exercises that follow the textual material concentrate on analyzing foreign financial statements and recasting them to US GAAP. The last exercise for each chapter concentrates on a du Pont analysis in that country. Although the text takes a conceptual approach, most of the exercises are procedural.

The end-of-text materials consist of two appendices, a glossary, and an index. Appendix A provides a comparison of accounting and reporting practices for Australia, Canada, China, Denmark, France, Hong Kong, India, New Zealand, Spain, and Switzerland, while Appendix B provides an overview of US GAAP.

This textbook has both strengths and weaknesses. Some of the many strengths include the cultural, political, and business integration, the flawless integration of research, and the interesting use of anecdotal citations from the financial press. Weaknesses include the
reliance on the US paradigm as a basis for understanding financial reporting, the heavy dependence on restatement and ratio analysis, and the absence of cases in the end-of-chapter material. While Parts I and III would be well suited for MBA students, Part II might be difficult without a strong accounting background. The inclusion of short cases in the end-of-chapter material would go a long way toward engaging the students and increasing their conceptual understanding of financial reporting and analysis.

Changes from the first edition include eliminating two chapters (“Financial Analysis: Further Considerations” and “Harmonization’s Future”), updating the examples and exhibits, replacing Brazil with Mexico throughout the text, and modifying of the end-of-chapter material. In the first edition, each chapter contained more varied types of end-of-chapter material. The second edition uses exercises only. Cases are available in a separate casebook edited by one of the authors of this text and also published by Irwin.

Although I feel that the analysis chapters focus too heavily on fundamental analysis, as a result of reviewing the text I am more convinced than ever that every student of accounting or finance should learn the material taught in Parts I and III of this text. Although the authors do concentrate on the financial statements, they also fully integrate the cultural aspects of businesses into the study of financial reporting. This promotes a better understanding of business practices, in general, and a comprehensive understanding of why just restating financial statements would not give a full picture of a company that operates in a foreign country. In other words, students are taught in Part III to look beyond the numbers in order to understand the company, the culture, and the country.

Although we offer an international accounting course at the undergraduate and graduate levels, we do not offer a course in international financial statement analysis. Therefore, based on the title, I would probably not have considered using this text. I hope that instructors will be motivated to look beyond the title and evaluate this textbook for potential adoption.

If I were to offer an international accounting course in an MBA program, I would exclude Part II, unless the students had an extremely strong financial accounting background, and I would supplement the remaining material with additional readings (international tax, managerial accounting, etc.). While the authors’ concentration on financial reporting and analysis is a bit heavy for an international accounting course, the presentation of the material in the text is compelling enough to warrant serious consideration as the primary text for this type of course.

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Continuous Quality Assurance—Statutory Audit in Europe, by Fédération des Experts Comptables Européens (FEE), April 1998, 44 pp., free.

Setting the Standards—Statutory Audit in Europe, by Fédération des Experts Comptables Européens (FEE), June 1998, 89 pp., free.