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‘Shopping Around’ for Accounting Practices: the Financial Statement Presentation of French Groups

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ABSTRACT

This paper illustrates the progressive move away from traditional accounting practices through a study of the presentation of financial statements. Based on a sample of one hundred large French industrial and commercial groups over a ten-year period, and applying a logistic regression method, our survey confirms a trend among French companies, which are increasingly turning their backs on traditional national practices as regards the balance sheet format, the income statement format, the voluntary disclosure of a statement of changes in shareholders’ equity and the cash flow statement format. This move towards ‘alternative’ practices is made possible by the flexibility of French regulation, and can probably be explained by the desire of French firms to attract more investment on international capital markets.

However, this trend shows no signs of a clear orientation towards any particular accounting model (IAS, U.S. or U.K.). The behavior of the French firms observed in our study can be considered as a kind of ‘shopping around’ accounting practices.

Key words: Financial statement presentation - International accounting standards – IASB - International harmonization.

The last twenty years have seen rapid development in the international financial markets. An increasing number of companies have sought listing abroad in order to raise more substantial capital. Transnational mergers and acquisitions are becoming more frequent and larger in scale. Institutional investors are more powerful and seek transparency in information disclosure by listed companies.

The direct impact of these developments on accounting is that increasingly, the products of accounting in one country are used in various other countries (Nobes and Parker, 2002, p. 73), and this is why the pressure for international accounting harmonization is constantly growing stronger. However, not every country plays an equal role in this harmonization process. Individuals and agencies in the U.S. and U.K. have long exerted influence over the practices of companies in many countries. Additionally, the importance of the International Accounting Standards Committee (IASC, now IASB) has grown over the past ten years.

In this context, it is logical to expect that large Asian and continental European companies would increasingly adopt certain accounting practices of international (IASC) or Anglo-American origin, in order to compete with their American and British counterparts on international capital markets.

Our study examines one aspect of accounting methods – the financial statement presentation. Using large French industrial and commercial groups as examples, we try to determine whether there have been any changes in their financial statement presentation over ten years (1989-1998). We develop a model that can be used to show that large French groups 'shop around' for what we call 'alternative' practices (i.e. alternative to the French tradition).

LITERATURE REVIEW

International Accounting Differences

One major task of international accounting research is to understand and classify the differences between accounting systems in various countries. Various research efforts identify a dichotomy in accounting systems around the world: the Anglo-American model versus the Continental European model. In their research, Salter and Doupnik (1992) conclude that this dichotomy in accounting systems is consistent with the Common law/Romano-Germanic dichotomy in legal systems. In the literature, France is generally depicted as a key representative of the Continental accounting model. More recently, Ball *et al.* (2000) show that common-law accounting income exhibits different characteristics from code-law accounting income.

Major differences exist between these two accounting models, both in accounting valuation and presentation methods. Most researchers in international accounting harmonization are interested in accounting valuation methods. Van der Tas (1988) analyzes the accounting treatments for deferred tax, investment tax credit and land and buildings valuation. Brunovs and Kirsch (1991) compare goodwill recognition, measurement, amortization, reassessment and disclosure among six English-speaking countries. Pope and Rees (1992) are interested in the information content of accounting earnings measures. Using the case study approach, Walton (1992) considers accounting measurement differences between France and Britain, with particular reference to long-term contracts. Norton (1995) undertakes a comparative analysis of the level of conservatism in U.S. and Australian accounting practice. Barth and Clinch (1996) investigate goodwill, asset revaluations, income taxes, pensions, interest capitalization, foreign currency and extractive industries accounting. By developing a statistical model of international accounting harmonization, Archer *et al.* (1996) compare deferred taxation and goodwill practices in eight European countries, while an article by Street and Bryant (2000) examines the extent to which the disclosure requirements of the IASC have been complied with or have been exceeded by companies claiming to use International Accounting Standards.

However, to the best of our knowledge, none of these works analyzes the presentation of financial statements. Hence our consideration of the principal components of financial statement presentation and the main divergences between countries.

International Accounting Harmonization

As we explain in the introduction, harmonizing national accounting systems has become a necessity. Among other indicators, a survey by Choi and Levich (1991) of institutional investors, corporate issuers, investment underwriters and market regulators in Germany, Japan, Switzerland, the U.K. and the U.S., concluded that the comparability of financial statements is important to investors.

International accounting harmonization has recently been brought center stage by two major events:

- The decision in May 2000 by the International Organization of Securities Commissions (IOSCO) to endorse the International Accounting Standards (IASs), while still allowing individual regulators to require certain supplementary treatments (Enevoldsen, 2000).
- The communication issued by the European Commission (June 13, 2000) of a proposal requiring all listed EU companies to prepare their consolidated financial statements in accordance with International Accounting Standards from 2005 onwards at the latest. This communication was followed by a proposal for a regulation in February 2001 that would include the same requirement. To attain its objective, the EU will form an *Accounting Regulatory Committee* that will decide whether to endorse IAS on the basis of Commission proposals and has founded a *European Financial Reporting Advisory Group* (EFRAG) to provide technical expertise on the subject. Furthermore, the existing Accounting Directives are to be modernized in the course of 2001-2002 (EU, 2000, 2001).

Predominance of the Anglo-American Accounting Model

Several authors posit the influence of the U.S., the U.K. and/or the IASC. For example, Ball *et al.* (2000) argue that 'the properties of accounting information prepared under common-law accounting standards are of particular contemporary interest because the (…) IASC recently completed a set of "international" accounting standards widely viewed as reflecting a largely common-law approach of transparent, timely disclosure'. Nobes (1998) also affirms that a high degree of correlation exists between equity-outsider financing systems and common law countries, and between credit-insider systems and codified law.

According to Walton (1996, p. 113), international accounting practice in large enterprises will certainly follow Anglo-American experiences, because these enterprises need accounting methods suitable for the financial markets. Bernheim (2000) shares this view. He states that neither the U.S. nor the U.K. requires an internationally harmonized accounting reference, since their enterprises have no need to be listed on foreign markets given that their own domestic markets are the most active in the world. Conversely, an internationally harmonized accounting reference is necessary for continental European and Asian countries. The above-mentioned measures taken by the EU clearly follow this reasoning.

However, the very idea of 'Anglo-Saxon' or 'Anglo-American' accounting is debated nowadays, for example in Alexander and Archer (2000). The 'Anglo-American' model is not uniform; there are several differences in the financial statement presentation rules if we compare, for instance, International, U.S. and U.K. standards.

RESEARCH METHOD

Research Hypothesis

In France, with the increase in cross-border listing and the growing number of Anglo-American institutional investors on the *Bourse de Paris*, we expect to find a certain trend towards 'internationalization' in the financial statement presentation of large groups. In the first eight months of 1999, foreign investment in French stocks and bonds totaled $71.7 billion, more than in all of 1998. Among the top 40 companies on the Paris stock exchange, an average stake of 35 percent is now held by American and British institutional investors and pension funds (Tagliabue, 2000).

Because of the lack of uniformity within the Anglo-American accounting model, it is tempting for large French groups to adopt the standard which seems the most appropriate, depending on which aspect of presentation is concerned. And so we arrive at the general hypothesis of our study:

Large French groups are increasingly moving away from traditional French practices in their financial statement presentation, and 'shopping around' to select alternative practices originating from International, U.S. or U.K. standards.

This general hypothesis is divided into nine sub-hypotheses, each of which will be examined in the next section.

We are interested in the changes in financial statement presentation by French groups over a recent ten-year period, concentrating mainly on their consolidated financial statements. Because no distinction is made between financial reporting and fiscal reporting in France, individual French companies' financial statements are largely influenced by taxation considerations. Conversely, because the tax factor is non-existent in consolidated financial statements (no income tax paid on the basis of the consolidated income), French standard-setting bodies allow more flexibility in presentation and valuation for group accounts. Consequently, French groups are entitled to choose alternative practices for their consolidation, and these alternatives may be similar to international, U.S., U.K. or even Nordic practices. Furthermore, as Tay and Parker noted (1990), if harmonization activities are the result of concern about the comparability of accounts produced by companies from different countries, then studies should focus on actual reporting practices rather than on regulations, that is, on *de facto* rather than *de jure* harmonization, a view shared by Van der Tas (1992).

Our research is based on the 'Methodology for consolidated accounts' (X, 1986), the common standard during the surveyed period. However, the new regulation (X, 1999a), which is applicable to financial statements published from 2000 will also be discussed, in order to show the development in French regulation.

Sample and Data

The sample of large French groups used in this study, and the related data, were obtained from a survey carried out annually since 1986 by a group of leading French accounting firms (X, since 1986). This survey compiles financial information published in annual reports by the 100 largest French industrial and commercial groups. The period surveyed is 1989-1998, the required data being unavailable before 1989.

The sample was selected mainly by following the criterion of consolidated sales from the list published by the French business press. Some adjustments have been made, to include groups with high value added and exclude state-owned enterprises and non-listed companies. Only industrial, commercial and service sectors are included in the survey; banks and insurance companies were rejected.

The composition of the sample remains relatively stable from year to year. However, each year requires certain modifications because of changes in performance, mergers and acquisitions, and privatization operations (see Appendix for a list of the companies included in the 1999 sample, based on 1998 annual reports).

Statistical Design

The statistical analysis, using a logistic regression method, will be presented in more detail along with the results.

SUB-HYPOTHESES

In order to confirm (or refute) the general hypothesis, we divided it into nine sub-hypotheses related to (1) the presentation order of financial statements, (2) the content of financial statements, (3) the number of accounting years presented, (4) the balance sheet and (5) income statement presentations.

Presentation Order of Financial Statements

Because of historical differences in the utility of accounting information, each country attributes varying degrees of importance to each particular financial statement. Between the continental and Anglo-American accounting systems, there is a substantially different understanding of the accounting function.

The continental view is that the basic function of accounting is to provide evidence that a firm has complied with judicial requirements, and satisfied the various demands of tax authorities, macro-administration bodies, investors, creditors, employees, etc. The European Union takes this view, and has therefore included accounting regulation in its company law harmonization process.

In Anglo-American countries, however, the purpose of the accounting function is seen more as the disclosure of economic information concerning an enterprise, under circumstances where, in most cases, financial ownership and operational management are separate. Accounting information is essentially an 'answer sheet' handed over by the operator of the enterprise (manager) to the owner(s) of the enterprise (shareholders). In this situation, shareholders take priority in the accounting objectives. For example, in the Framework for the Preparation and Presentation of Financial Statements dated 1989, the IASC indicates that '*as investors are providers of risk capital to the enterprise, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy*' (IASC, 2001, § 10).

This divergence in the objectives of financial statements is visible in differences in the order that accounting information is presented. The first item presented may well be the balance sheet. As explained by Boussard and Colasse (1992), 'French financial accounting is strongly marked by the concept of ownership. As a consequence, its main compulsory output has for a long time been the balance sheet'. This is why, historically, French companies have always tended to begin with their balance sheet. Another option is to provide the income statement first. In doing so, the firm is indicating that the most important information it wants to show its shareholders is its performance during the accounting year. According to Basu (1997), in the U.S., financial accounting since the mid-1930s has placed more emphasis on the income statement. Moreover, U.K. and Nordic companies (especially in Sweden, Finland and Norway) often begin their presentation with the income statement.

Sub-hypothesis 1 is thus as follows:

H_1 An increasing number of large French groups no longer begin their financial statement presentation with the balance sheet.

Table 1 provides the data obtained from the annual survey of annual reports (X, since 1986).

TABLE 1
PRESENTATION ORDER OF FINANCIAL STATEMENTS: DESCRIPTIVE DATA

First document presented	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Income statement	26	28	33	32	38	39	45	49
Balance sheet	74	72	67	68	62	61	55	51
Total	100	100	100	100	100	100	100	100

Data unavailable for 1989 and 1998.

Content of Financial Statements

According to IAS 1 (IASC, 1997, § 7), 'a complete set of financial statements includes the following components:

(a) balance sheet;

(b) income statement;

(c) a statement showing either:

- all changes in equity; or
- changes in equity other than those arising from capital transactions with owners and distributions to owners;

(d) cash flow statement; and

(e) accounting policies and explanatory notes'.

However, the 4th European Directive (EEC, 1978) specifies in article 2 that 'the annual accounts shall comprise the balance sheet, the profit and loss account and the notes on the accounts'. The rule remains unchanged in the 7th Directive (EEC, 1983, art. 16, § 1).

In practice, almost all countries, European Union members and non-members alike, require at least a balance sheet, profit and loss account, and notes on the accounts. To ensure that investors, accounting information users and shareholders are well informed about the financial position of a business, many countries add a cash flow statement and/or a statement of changes in shareholders' equity to the required reporting package.

Statement of Cash Flows

In the U.S., from 1971, in addition to the traditional balance sheet and income statement, the Accounting Principles Board (APB) required U.S. firms to publish the statement of changes in financial position (APB Opinion No. 19). The statement of cash flows (SFAS 95) replaced this statement in 1987 (FASB, 1987). As mentioned above, this statement is required by IAS 1 (IASC, 1997) and described in IAS 7 (IASC, 1992). It is also required by FRS 1 in the U.K. and Ireland (ASB, 1991).

Conversely, under the French Code of Commerce, which has been influenced by the 4th European directive, the only two compulsory financial statements are the balance sheet and the income statement, which must always be accompanied by notes. Similarly, the 'Methodology for consolidated accounts' (X, 1986, referred to as the 'Methodology' in the rest of this paper) recommends, but does not require, the publication of a statement of changes in financial position or of cash flows. Neither a statement of changes in financial position nor a statement of cash flows is mandatory in France. Nevertheless, statistics show that almost all large French groups publish at least one of the two (99% in 1998) (see table 2 below).

TABLE 2
STATEMENT OF CASH FLOWS OR OF CHANGES IN FINANCIAL POSITION: DESCRIPTIVE DATA

Statement published	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Statement of cash flows	19	25	30	38	45	50	50	65	71	78
Statement of changes in financial position	65	62	56	48	46	41	40	32	29	21
Both	0	0	0	2	1	2	2	1	0	0
Neither	16	13	14	12	8	7	8	2	0	1
Total	100	100	100	100	100	100	100	100	100	100

In its 1982 version (revised in 1999, see X, 1999b), the French General Accounting Plan proposed a model statement of changes in financial position. However, this model, which shows the change in working capital for individual company financial statements, is optional. The French professional accounting organization (*Ordre des experts comptables*) (OEC, 1997) proposed an optional statement of cash flows similar to the U.S. (SFAS 95) and international (IAS 7) models. In consolidated financial statements, the 'Methodology' (X, 1986, No. 33) allows groups free choice of model; however, adopting the model suggested for individual company statements is recommended.

The major question, then, remains the choice of a model. As Colasse states (2000, p. 334), the statement of changes in financial position and the statement of cash flows have different purposes. The statement of changes in financial position is a transitional table between two balance sheets and aims to explain under what conditions the firm was able to maintain its financial structure. The statement of cash flows, on the other hand, emphasizes changes in cash and is designed to allow users to evaluate future cash flows.

Sub-hypothesis 2 is:

H_2 An increasing number of large French groups are abandoning the statement of changes in financial position, preferring instead to publish a statement of cash flows.

The number of groups that have published a statement of cash flows over the last ten years is shown in table 3.

TABLE 3
PUBLICATION OF A STATEMENT OF CASH FLOWS: DESCRIPTIVE DATA

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Statement of cash flows	19	25	30	40	46	52	52	66	71	78
No statement of cash flows	81	75	70	60	54	48	48	34	29	22
Total	100	100	100	100	100	100	100	100	100	100

Starting with financial statements for 2000, the French regulation regarding consolidated accounts (X, 1999a, referred to as the 'Regulation' in the rest of the paper) now requires publication of a statement of cash flows.

Statement of Changes in Shareholders' Equity

According to IAS 1 (IASC, 1997, § 86), 'an enterprise should present, as a separate component of its financial statements, a statement showing:

(a) the net profit or loss for the period;

(b) each item of income and expense, gain or loss which, as required by other Standards, is recognized directly in equity, and the total of these items (such as revaluation surpluses and certain foreign exchange differences); and

(c) the cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under the Benchmark treatment in IAS 8'.

As explained earlier, although this statement is not required in France because neither the 4th nor the 7th Directives mention it, the 'Methodology' (X, 1986, No. 30) recommends its inclusion. A study of the reporting practices of large French companies shows that all of them publish this statement, either as a separate financial statement or in the notes.

The remaining question is where the statement should be located: separately or as part of the notes. Historically, because this document was not considered of major importance in France, it was generally published in the notes. This leads us to sub-hypothesis 3:

H_3 An increasing number of large French groups are choosing to disclose the statement of changes in shareholders' equity as a separate financial statement.

The change over the ten-year period studied, according to our survey, is shown in table 4.

TABLE 4
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY: DESCRIPTIVE DATA

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Statement published separately	31	32	33	38	40	34	36	42	45	46
Statement included in notes	69	68	67	62	60	66	64	58	55	54
Total	100	100	100	100	100	100	100	100	100	100

In contrast to the IAS 1 prescription mentioned above, the 'Regulation' (X, 1999a, § 424) requires publication of a statement of changes in equity, to be included in the notes.

Notes to the Financial Statements

Another interesting point is the varying degrees of importance attributed to the notes to financial statements. On continental Europe, the requirements for balance sheets and income statements are often defined by national accounting standards. Every principal statement contains detailed information, which naturally reduces the extent of the notes. Traditionally, French companies presented very detailed financial statements with few or no accompanying notes.

Influenced by their common law system, which relies on a limited number of statutes supplemented by large numbers of case precedents, Anglo-American firms tend to publish relatively simple balance sheets and income statements, with more detailed (U.S. practice) or indexed (U.K. and Nordic countries practice) notes.

However, the essential importance of notes in financial statements is now recognized by most continental countries and these Anglo-American practices are becoming widespread in France, following implementation of the 4th and 7th European Directives (EEC, 1978 and 1983).

In seeking to identify any trend towards attribution of more importance to the notes, we have concentrated on the indexing of notes, since the degree of detail is a subjective item and would require another separate survey. Sub-hypothesis 4 can thus be formulated as follows:

H_4 To complement their balance sheets and income statements, an increasing number of large French groups are adopting indexed notes (i.e. with numbered references to specific items in the financial statements).

The development of this practice over the 10-year period in question is shown in table 5.

TABLE 5
DETAILED NOTES TO THE FINANCIAL STATEMENTS: DESCRIPTIVE DATA

	1989	**1990**	**1991**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Indexed notes	50	54	57	59	73	77	85	84	85
Non indexed notes	50	46	43	41	27	23	15	16	15
Total	100	100	100	100	100	100	100	100	100

Data unavailable for 1992.

Number of Periods for which Figures are Disclosed

The number of fiscal years reported in financial statements is also a point of divergence in international accounting. Following the requirements of the SEC, American companies usually disclose three years' figures for the income statement, two years for the balance sheet and three years for the statement of cash flows. However, IAS 1 (IASC, 1997) requires only one comparative period for all financial statements, and this is also common practice among British and continental European companies. In France, the Code of Commerce also recommends disclosure of one comparative period.

Sub-hypotheses 5 and 6 concern the number of periods reported.

H_5 In large French groups' balance sheets, inclusion of two comparative periods, rather than one, is becoming more and more frequent.
H_6 In large French groups' income statements, inclusion of two comparative periods, rather than one, is becoming more and more frequent.

Table 6 shows the changes between 1990 and 1998.

TABLE 6
NUMBER OF YEARS PUBLISHED: DESCRIPTIVE DATA

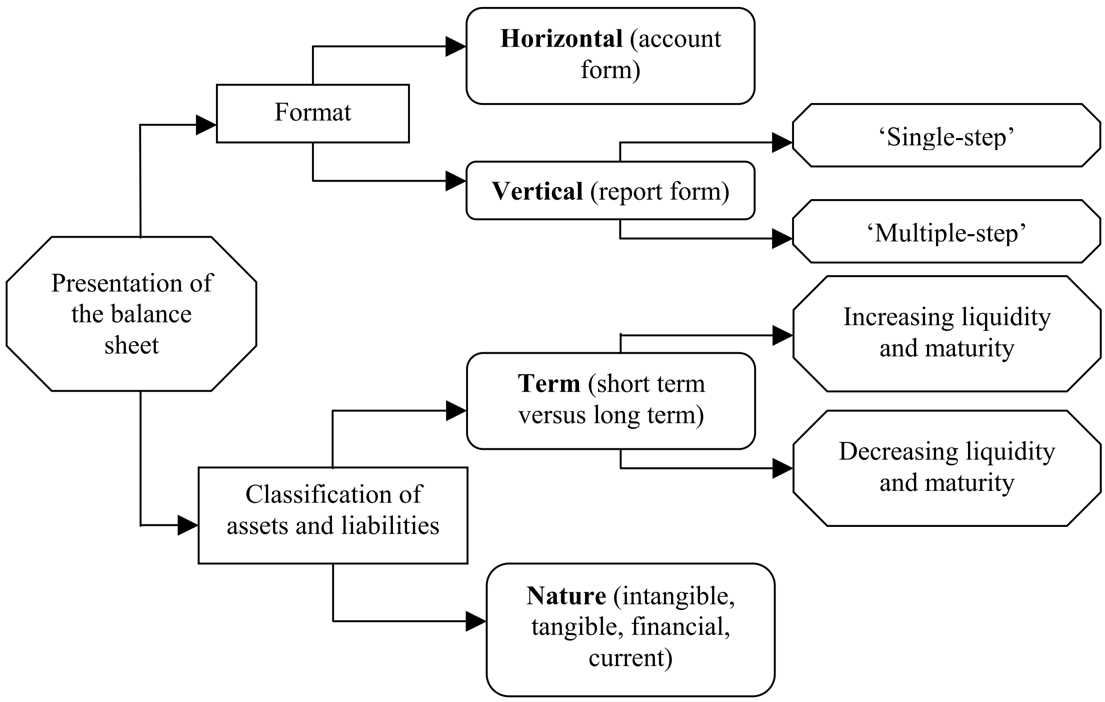
		1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Balance sheet	3 years	11	11	13	21	33	47	62	71	77
	2 years	89	89	87	79	67	53	38	29	23
Income statement	3 years	14	12	16	24	36	50	64	72	77
	2 years	86	88	84	76	64	50	36	28	23

Data unavailable for 1989.

Balance Sheet Presentation

There are several differences in balance sheet presentation, summarized in figure 1.

FIGURE 1
PRESENTATION OF THE BALANCE SHEET



Balance Sheet Format

The first difference concerns the format. The balance sheet can be presented 'horizontally' (account form), with the two blocks side by side, or it can be presented 'vertically' (report form), with assets at the top. In some countries, the U.K. and Ireland for example, a 'multiple-step' format is used, with a list of subsets of the three main categories of assets, liabilities and shareholders' equity and identification of managerially useful subtotals by subtracting other relevant subcategories of assets or liabilities.

According to Nobes and Parker (2002, p. 48), '*at its most obvious, the general use of a vertical format in the United Kingdom, rather than a horizontal format as in France or Spain, suggests a greater shareholder orientation in the United Kingdom. This is because, as noted above, the vertical format of the balance sheet allows the presentation of working capital and net worth, and it contrasts net worth with shareholders' funds*.'

The French 'Methodology' (X, 1986, No. 30) does not require a specific model; it authorizes reporting in a vertical *or* horizontal balance sheet format.

However, over the period surveyed, all the groups included in the study opted for the horizontal balance sheet format (see table 7).

TABLE 7
BALANCE SHEET PRESENTATION: DESCRIPTIVE DATA FOR THE FORMAT OF THE STATEMENT

Balance sheet format	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Vertical format	0	0	0	0	0	0	0	0	0	0
Vertical format – multiple step	0	0	0	0	0	0	0	0	0	0
Horizontal format	100	100	100	100	100	100	100	100	100	100
Total	100	100	100	100	100	100	100	100	100	100

Under the new 'Regulation' (X, 1999a, § 400), the consolidated balance sheet should be presented horizontally. However, the vertical format is allowed provided it has been the format customarily used by the company.

Balance Sheet Classification

The second difference relates to the classification of assets and liabilities. As shown in figure 1, assets and liabilities can be classified in different ways, for example according to the time horizon of their transformation into cash (short term / long term) or the nature of the asset (fixed / current, tangible / intangible).

French accounting gives priority to the judicial form (nature) of the items in the balance sheet. Consequently, for individual company financial statements the French General Accounting Plan recommends a balance sheet model in which all items are classified by their nature. However, given the dichotomization of individual company and consolidated group financial statements, French law authorizes classification by term for the consolidated financial statements.

IAS 1 (IASC, 1997, § 53-56) gives companies the choice of whether or not to separate short-term and long-term assets and liabilities in their balance sheets. However, in the U.S. and Canada, all figures in the balance sheet are classified by term (long term or short term) and presented in order of decreasing liquidity and maturity. Companies in many other countries present their balance sheet figures in order of increasing liquidity and maturity.

Sub-hypothesis 7 relates to the classification of items in the balance sheet.

H_7 An increasing number of large French groups are moving away from classification by nature, opting instead to classify assets and liabilities by term.

TABLE 8
CLASSIFICATION OF ASSETS AND LIABILITIES: DESCRIPTIVE DATA

Type of classification	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
By term	26	25	28	35	35	46
By nature	74	75	72	65	65	54
Total	100	100	100	100	100	100

Data unavailable before 1993

The new 'Regulation' (X, 1999a, § 400) recommends a model balance sheet that does not allow presentation by term. However, the distinction between short term and long term assets and liabilities must be disclosed in the notes.

Presentation of Assets

The last important format difference in financial statement presentation relates to the presentation of assets. In many countries, following IAS 1 (IASC, 1997), only the net value of assets is reported. While U.S. balance sheets present assets in one column, fixed assets can be shown in three lines as: gross value less accumulated depreciation equals net value. In a French balance sheet, asset items are presented in three columns: gross value, accumulated depreciation and valuation allowances, and net value (see 'Methodology': X, 1986, No. 30).

Sub-hypothesis 8 concerns the presentation of balance sheet assets.

H$_8$ An increasing number of large French groups are no longer presenting balance sheet assets in three columns.

The trend in the presentation of assets is shown in table 9 below.

TABLE 9
PRESENTATION OF ASSETS: DESCRIPTIVE DATA

Assets presented in	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
One column	54	31	24	33	64	57
Three columns	46	69	76	67	36	43
Total	100	100	100	100	100	100

Data unavailable before 1993

Income Statement Format

There are several possible formats for presenting an income statement. Although the horizontal format (expenses on the left and revenues on the right) is permitted in certain countries, including France, most companies use the vertical format for income statement presentation. The main difference lies in classification of expenses.

IAS 1 (IASC, 1997, §§ 77-85) states that 'expense items are sub-classified in order to highlight a range of components of financial performance, which may differ in terms of stability, potential for gain or loss and predictability'. This information is provided in one of two ways: by nature or by function. The first method of sub-classification is referred to as *the nature of expense method*. Expenses are aggregated in the income statement according to their nature, for example, purchases of materials, transport costs, taxes other than income tax, salaries and social expenses, and depreciation. They are not allocated between the various functions of the enterprise. This is the traditional French method for individual company income statements.

The second method of sub-classification is referred to as *the function of expense* or *cost of sales method.* This method classifies expenses according to their function: they are considered as a component of the cost of goods sold, commercial, distribution or administrative activities, for example. The format by function, by allocating wages and depreciation to different stages of production, is useful in computation of gross profit for a manufacturing company. This is the format adopted in U.S. GAAP.

Some companies, mostly British, present a simplified income statement that is very similar to the single-step model. In such cases, it is difficult if not impossible to judge whether their income statements are classified by nature or by function.

The French 'Methodology' (X, 1986, No. 31) allows companies to choose between the nature-of-expense and function-of-expense models. However, for individual companies' financial statements, the presentation by nature is required. This explains why this format is the most traditionally used in France.

Sub-hypothesis 9 relates to the presentation of the income statement.

H_9 An increasing number of large French groups are no longer using the traditional format by nature, preferring a by-function or simplified income statement format.

The trend between 1989 and 1998 is shown in table 10.

TABLE 10
CLASSIFICATION OF EXPENSES: DESCRIPTIVE DATA

Classification of expenses	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
By function	30	24	23	29	22	23	27	30	31	32
Short presentation	0	0	6	0	8	10	12	12	11	8
Sub-total (function or simplified)	*30*	*24*	*29*	*29*	*30*	*33*	*39*	*42*	*42*	*40*
By nature	70	64	56	60	59	56	51	44	42	40
By intermediate results	0	12	15	11	11	11	10	14	16	20
Sub-total (nature)	*70*	*76*	*71*	*71*	*70*	*67*	*61*	*58*	*58*	*60*
Total	100	100	100	100	100	100	100	100	100	100

Summary of the Origins of the Sub-Hypotheses

Table 11 summarizes, for the nine sub-hypotheses, the different standards or practices which have been adopted by French groups.

TABLE 11
REFERENCES CHOSEN BY FRENCH GROUPS 'SHOPPING AROUND'

	Hypotheses	Standard or practice	Comments
H_1	Income statement reported as the first document.	Practice in U.K. and Nordic countries	
H_2	Publication of a statement of cash flows.	IASC (IAS 1, IAS 7), SFAS 95	Required as an integral part of financial statements.
H_3	Statement of changes in equity published as a financial statement.	IASC (IAS 1)	Required as an integral part of financial statements.
H_4	Publication of indexed notes.	Practice in U.K. and Nordic countries	Simplified balance sheet and income statement with indexed notes.
H_5	Balance sheet presented for 3 years.	Practice	
H_6	Income statement presented for 3 years.	U.S. SEC	Common practice in the U.S.
H_7	Balance sheet presented by term.	IASC (option in IAS 1), U.S. rule	Practice in the U.S. and many other countries (U.K., Ireland).
H_8	Balance sheet assets presented in one column.	IASC (IAS 1)	Model given in IAS 1.
H_9	Income statement presented by function or in simplified format.	IASC (option in IAS 1), U.S. rule, U.K. practice	Practice in the U.S. and U.K.

STATISTICAL ANALYSIS

The data used in the statistical analysis, taken from the tables above, are presented in table 12. The general trend is calculated as an average of the available data for each year.

TABLE 12
PRESENTATION OF RELATED DATA

	Meaning of the hypothesis	Code	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
H_1	Income statement as the first document.	beg_is		26	28	33	32	38	39	45	49	
H_2	Publication of a statement of cash flows.	cashflow	19	25	30	40	46	52	52	66	71	78
H_3	Statement of changes in equity published as a financial statement.	equity	31	32	33	38	40	34	36	42	45	46
H_4	Indexed notes.	notes	50	54	57		59	73	77	85	84	85
H_5	Balance sheet for 3 years.	bs_3years		11	11	13	21	33	47	62	71	77
H_6	Income statement for 3 years.	is_3years		14	12	16	24	36	50	64	72	77
H_7	Balance sheet presented by term.	bs_term					26	25	28	35	35	46
H_8	Balance sheet assets in 1 column.	bs_1column					54	31	24	33	64	57
H_9	Income statement by function or simplified.	is_function	30	24	29	29	30	33	39	42	42	40
	General trend.		32.5	26.6	28.6	28.2	36.9	39.4	43.6	52.7	59.2	63.3

FIGURE 3
GRAPHIC PRESENTATION OF EACH VARIABLE AND THE GENERAL TREND

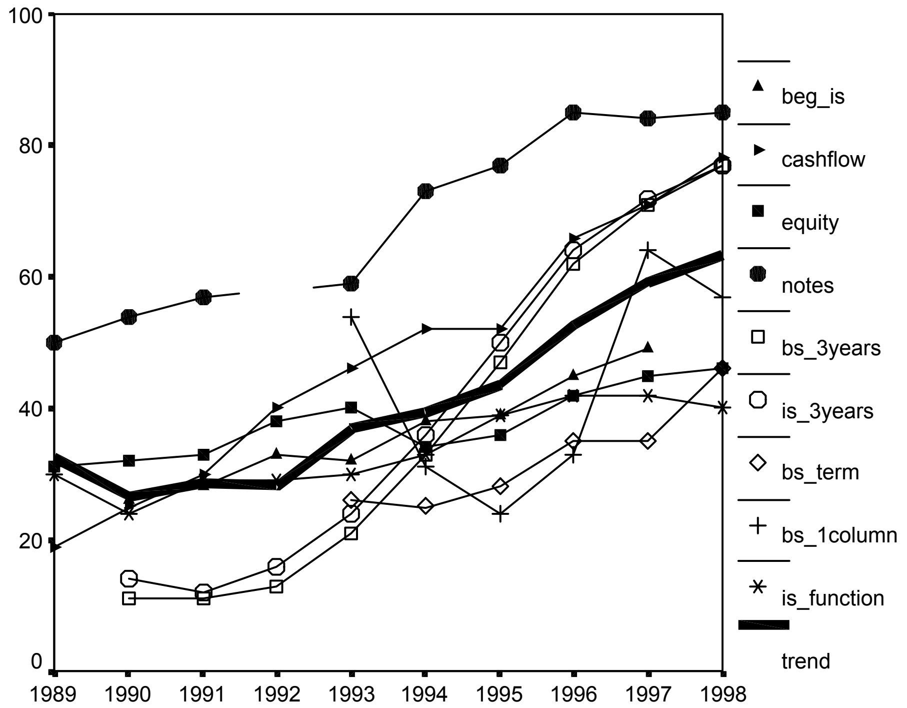


Figure 3 clearly shows the trends in the form of an ‘S’ curve (specifically for bs_3years and is_3years). Consequently, the simple regression method is not suitable for our statistical analysis, since it analyzes trends on a straight-line basis. Besides, all of our data are of a proportional nature (between 0 and 100%). For these two main reasons, we have opted for the logistic regression method in our statistical analysis. This method is presented in Hosmer and Lemeshow (1989).

Logistic regression is useful for predicting the presence or absence of a characteristic or outcome based on the values of a set of predictor variables. This study seeks to describe the changes in a proportion over a given period. We are interested in seeing whether changes in the formats used by large French groups to present their financial statements over a recent ten-year period confirm our predicted tendency towards internationalization. Therefore, the binary logistic regression model can be used for our statistical analysis.

We used the following model (Model 1):

$$\text{Proportion of companies showing a given characteristic at a given time t} = \frac{e^{a+bt}}{1+e^{a+bt}}$$

This model fits the data well if the *Hosmer and Lemeshow* Test is not significant (significance level of the Chi-square statistic higher than 0.05). Coefficients a and b are estimated by maximum likelihood and are considered as different from zero if the Wald statistic ([coefficient/standard deviation of the coefficient]^2), which is equivalent to the square value of Student's *t* in the linear regression, has a significance level of less than 0.05 (which corresponds in practice to a Wald higher than 4)'.

Taking our first sub-hypothesis (presentation order of financial statements) as an example, we show in table 13 the results of the statistical analysis and a summary of the major figures.

TABLE 13
STATISTICAL RESULTS FOR SUB-HYPOTHESIS 1

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	.632	6	.996

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	**TIME**	.141	.033	18.485	1	.000	1.152
	Constant	-1.215	.171	50.161	1	.000	.297
A Variable(s) entered on step 1: TIME.							

The probability that the financial statements begin with the income statement is given by the following formula:

$$\text{Prob(Financial statements begin with Income statement at year t)} = \frac{e^{-1.215+0.141t}}{1+e^{-1.215+0.141t}}$$

For example, for t=1, the probability is equal to $\frac{e^{-1.215+0.141t}}{1+e^{-1.215+0.141t}} = 0.25477$

For 100 companies, the theoretical number of companies beginning their financial statements with the income statement is 25.477, while the number observed is 26 (see table 11).

The model fits the data well since the *Hosmer and Lemeshow* chi-square equals 0.632, which leads to a significance level of 0.996 (higher than 0.05). Moreover, the slope of the model is highly significant since Wald $(0.141/0.033)^2 = 18.485$, which leads to a significance level of 0.000, lower than 0.05. Sub-hypothesis 1 is accepted.

Clearly, model 1 can also be written as (Model 2)

$$\mathrm{Ln}\left(\frac{p(t)}{1-p(t)}\right) = a + bt$$

where p(t) is the proportion p for the period t.

It is also useful to look at the odds-ratio (OR) related to time:

$$\mathrm{OR} = \frac{p(t)/(1-p(t))}{p(t-1)/(1-p(t-1))}$$

It can be deduced from model 2 that OR = e^b. This odds-ratio (here it equals 1.152 – see table 13) measures the growth rate of the observed variable. When it is higher than 1, the trend is increasing. The bigger it is, the more significant the evolution.

Table 14 shows the statistical results for all nine sub-hypotheses as well as the general one.

TABLE 14
OVERVIEW OF STATISTICAL RESULTS

	Hypotheses	Hosmer and Lemeshow Test (significance level)	Time – Wald (significance level)	Accepted or rejected
H_1	Income statement reported as the first document	0.996	0.000	Accepted
H_2	Publication of a statement of cash flows	0.968	0.000	Accepted
H_3	Statement of changes in equity published as a financial statement	0.964	0.003	Accepted
H_4	Publication of indexed notes	0.709	0.000	Accepted
H_5	Balance sheet presented for 3 years	0.652	0.000	Accepted
H_6	Income statement presented for 3 years	0.534	0.000	Accepted
H_7	Balance sheet presented by term	0.781	0.001	Accepted
H_8	Balance sheet assets presented in one column.	0.000	0.003	Rejected
H_9	Income statement presented by function or in simplified format.	0.916	0.000	Accepted
	General hypothesis: move away from traditional French practices	0.412	0.000	Accepted

Except for sub-hypothesis 8, all the sub-hypotheses are validated statistically. The general hypothesis is also accepted: over the last decade, the financial statement presentation of large French groups has been becoming more and more 'international', at least for consolidated financial statements, with groups adopting a mixture of IAS, U.S. and U.K rules and practices.

In table 15, we classify all the variables studied according to their odds-ratios, which indicates in concrete terms the contribution of each variable to the general trend revealed by the analysis.

TABLE 15
VARIABLES CLASSIFIED BY THEIR ODDS-RATIO

	Variables	Odds-ratio
H_5	Balance sheet presented for 3 years	1.628
H_6	Income statement presented for 3 years	1.579
H_2	Publication of a statement of cash flows	1.331
H_4	Publication of indexed notes	1.289
H_7	Balance sheet presented by term	1.198
H_5	Assets of the balance sheet presented in one column	1.155
H_1	Income statement reported as the first document	1.152
H_9	Income statement presented by function or in simplified format	1.090
H_3	Statement of changes in equity published as a financial statement	1.069

Our results are in line with other research showing the tendency of European companies to move closer to the Anglo-American model. In their study of accounting properties – timeliness and conservatism – in seven major developed countries, Ball *et al.* (2000) find that between the two sub-periods, 1985-90 and 1991-95, French companies significantly increased the asymetrical conservatism of their accounting income. This indicates a leaning towards the common-law financial reporting model. A KPMG study (2000) of the GAAP adopted by 122 companies from 16 European countries shows that 61% of these companies have already used IAS or U.S. GAAP, or provided a reconciliation of their financial statements with these standards. Moreover, of the 45 companies still using national GAAP, 20 intend to convert to IAS or U.S. GAAP within 3 to 5 years. A study by the Deminor consultancy (2000) finds almost the same result: nearly 60% of the European companies surveyed use either IAS or U.S. GAAP. Research by Bos *et al.* (2000) into European companies listed in the U.S. shows that of the 103 companies studied, the percentages that disclose their domestic annual reports in IAS, in U.S. GAAP or in more than one GAAP are respectively 4%, 18% and 20%.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

This survey was only possible because of the 'dichotomy in France between individual corporate and consolidated financial statements; the rules give French groups relative 'freedom' in their consolidated financial statements. Without this freedom to choose, French groups could have made no move away from traditional French practices, unless there was a change in the regulations and internationalization became compulsory.

There must be no confusion between a single given case and an development in progress. Although our survey clearly shows a trend towards the adoption of alternative practices, it is wrong to assert that all the variables show that the majority of French groups have adopted alternative practices in the presentation of their financial statements. For example, while it is true that the number of firms using Anglo-American formats for their balance sheets and income statements has increased, traditional formats, by nature, still dominate the presentation of financial statements, for both the balance sheet and the income statement.

Moreover, although we refer in our literature review to studies that underscore the supremacy of the Anglo-American model, other researchers contest the information value of accounting disclosure in U.S. GAAP for non-American firms. For instance, Alford *et al.* (1993) find that accounting earnings prepared in accordance with the domestic GAAP of Australia, France, the Netherlands, and the U.K. are more timely or more value-relevant than accounting earnings prepared in accordance with U.S. GAAP.

Although we focus on the presentation of financial statements and not on accounting methods, the two may be inter-related. We should not forget, for example, that an international-style presentation may hide substantial differences in accounting methods.

Our study was based on French language versions of financial statements. To our knowledge, the English version of financial statements is generally a simple translation of the French version, except in a few cases (e.g. Clarins). However, it would be interesting to identify cases where the two versions are not identical, and analyze the differences in presentation.

Finally, our study does not provide evidence that the trend among French groups is a result of the influence of other standards. We can simply observe that the new French practice is a mixture of alternative practices taken probably (but not certainly) from IASs, U.S. GAAP or U.K. GAAP. The origin of the new French practices could be investigated further.

As far as future research is concerned, we see at least three interesting directions. First, while it is interesting to know that large French groups publish financial statements of increasingly 'international' format, it would be useful to explain this development, using several variables such as ownership by foreign shareholders, multi-nationalization of the company and its executives, including CFOs, and the changes in the approach by French financial analysts. Second, after several necessary adjustments to the options offered or imposed by national accounting standards, our model could be used to measure the 'internationalization' trend of financial statement presentation in other countries, and to identify the variables contributing the most to this trend by means of the odds-ratio. Finally, a trans-European comparison would be very useful, and could deepen our understanding of the different rates at which large firms in various continental European countries are adopting 'international' accounting models.

CONCLUSION

Over the last ten years, more and more large French groups have begun their financial statement presentation with the income statement. The content of their financial statements has also been expanded to include not only the traditional balance sheet and income statement, but also the statement of cash flows and the statement of changes in shareholders' equity, as a separate document. To complete their financial statements they have, with increasing frequency, also added indexed notes.

The results of this study provide broad support for our general hypothesis that the financial statement presentation of large French groups has become less and less markedly French over the last decade, at least in the consolidated financial statements. This trend is a result of a sort of 'shopping around' among IAS, U.S. and U.K. practices. This apparently opportunistic approach on the part of large French groups could be interpreted as a deliberate choice made to further their success on the international financial markets.

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APPENDIX
LIST OF FRENCH GROUPS INCLUDED IN THE SAMPLE IN 1999

Accor	Dynaction	Promodès
Aérospatiale	Eiffage	PSA-Peugeot Citroën
Air France	Elf	Publicis
Alcatel	Eramet	Rémy Cointreau
Alstom	Eridania Béghin-Say	Renault
Altran Technologies	Essilor	Rhône-Poulenc
André	Faurecia	Royal Canin
Atos	Fives-Lille	Sagem
Bel	Framatome	Saint-Gobain
Bic	France-Telecom	Sanofi
Bolloré	Galeries-Lafayette	Schneider
Bongrain	Geodis	Seb
Bouygues	Havas Advertising	Seita
Bull	Hermès	Sge
Canal +	Imerys	Sidel
Cap Gemini	L'Air Liquide	Skis Rossignol
Carbone Lorraine	L'Oréal	Snecma
Carrefour	Labinal	Sodexho
Casino	Lafarge	Sommer Allibert
Castorama	Lagardère	Strafor Facom
Cea-Industrie	Legrand	Suez Lyonnaise des Eaux
Chargeurs	Legris Industries	Taittinger
Cie Générale de Géophysique	Lvmh	Technip
Ciments Français	M6	TF1
Clarins	Michelin	Thomson-Csf
Club Méditerranée	Moulinex	Thomson Multimédia
Coflexip	Norbert Dentressangle	Total
Communication & Systèmes	Pathé	Usinor
Damart	Péchiney	Valeo
Danone	Pernod Ricard	Vallourec
Dassault Aviation	Pinault Printemps-Redoute	Vivendi
Dassault Systèmes	Plastic Omnium	Worms & Cie
De Dietrich	Primagaz	Zodiac
Dmc		

Source: L'information financière en 1999: 100 groupes industriels et commerciaux ('Financial information in 1999, 100 industrial and commercial groups'), p. 673.