



UNIVERSITÀ
DEGLI STUDI
DI BERGAMO

Dipartimento
di Scienze Aziendali

Accounting regulation and accounting systems

International and Advanced Accounting
179009-ENG

Corso di Laurea Magistrale in
ACCOUNTING, GOVERNANCE AND
SUSTAINABILITY

RELATORE

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SEDE

Bergamo

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Accounting regulation and accounting systems

Wednesday 30 September – the map of today

Opening question: *who decides how Bergamo Bikes must record its transactions, and would a company in Manchester record them the same way?*

Part A – Who writes the rules

- ✓ Debriefing of homework set 2 (20 min)
- ✓ Accounting around the world
- ✓ EU instruments: regulation, directive, recommendation
- ✓ Italy: Civil Code, OIC, IFRS – who applies what
- ✓ IASB: standards, interpretations, due process, EU endorsement
- ✓ Useful information and sustainability reporting

Part B – Two ways of keeping the books

- ✓ Patrimonial system (Besta; Anglo-Saxon variant)
- ✓ Income system (Zappa)
- ✓ Worked example: one production cycle, three sets of entries
- ✓ What if goods are unsold at year end?
- ✓ Where each system lives today: art. 2425 c.c. vs IAS 1 / IFRS 18

Two answers to keep in mind: the rules come from different levels (EU → national law → standard setters); the same rules can be applied with different bookkeeping «engines», which is why an Italian and a British income statement look different even under IFRS.



Homework set 2 – debriefing

Exercise 5 «The Library»: journal

Date	Debit	Credit	Amount
Jan 1	Cash 16,000 · Building 4,000	Common stock	20,000
Mar 15	Land	Cash 2,000 · Accounts payable 4,000	6,000
Jun 3	Inventory	Accounts payable	2,000
Jun 8	Accounts receivable	Sales revenues	1,200
Jun 8	Cost of goods sold	Inventory	1,000
Jun 15	Cash	Accounts receivable	1,200
Jun 30	Accounts payable	Cash	2,000
Jun 30	Wages and salaries	Cash	100
Jul 31	Cash	Bonds payable	2,000
Sept 15	Accounts payable	Cash	4,000
Oct 30	Cash	Land 6,000 · Gain on sale of land 1,000	7,000
Dec 31	Depreciation expense	Accumulated depreciation – building	200



Homework set 2 – debriefing

Exercise 5 «The Library»: statements at 31 December

Balance sheet	
Building 4,000 – 200	3,800
Inventory	1,000
Cash	18,100
Total assets	22,900
Bonds payable	2,000
Common stock	20,000
Net profit	900
Total liabilities + equity	22,900

Income statement	
Sales revenues	1,200
Cost of goods sold	(1,000)
Gross profit	200
Gain on the sale of land	1,000
Wages and salaries	(100)
Depreciation	(200)
Net profit	900

Exercise 6 (retail shop): assets $67 + 19 + 105 = 191$ = liabilities 75 + capital and profit 116; profit of the period $16 = 20 - 4$. The 25 of inventory bought on credit is not in the profit: not yet sold.



Homework set 2 – debriefing

Exercise 7 «Bergamo Bikes»: journal and adjustments

#	Debit	Credit	Amount
1	Cash	Share capital	50,000
2	Cash	Bank loan	20,000
3	Equipment	Cash	24,000
4	Inventory (100 × 300)	Accounts Payable	30,000
5a	Cash 20,000 · Accounts Receivable 15,000	Sales revenue	35,000
5b	Cost of goods sold (70 × 300)	Inventory	21,000
6	Accounts Payable	Cash	18,000
7	Prepaid rent	Cash	6,000
8	Wages	Cash	8,000
A1	Depreciation expense (24,000 / 6)	Accumulated depreciation	4,000
A2	Interest expense (20,000 × 5% × 3/12)	Accrued interest payable	250
A3	Rent expense (6,000 × 6/12)	Prepaid rent	3,000



Homework set 2 – debriefing

Exercise 7 «Bergamo Bikes»: statements and the question that opens today

Income statement	Amount
Sales revenue	35,000
Cost of goods sold	(21,000)
Gross profit	14,000
Wages	(8,000)
Rent expense	(3,000)
Depreciation	(4,000)
Operating result (EBIT)	(1,000)
Interest expense	(250)
Net loss	(1,250)

Balance sheet	Amount
Equipment 24,000 – depreciation 4,000	20,000
Inventory (30 × 300)	9,000
Accounts Receivable	15,000
Prepaid rent	3,000
Cash	34,000
Total assets	81,000
Share capital 50,000 – loss 1,250	48,750
Bank loan	20,000
Accounts Payable (30,000 – 18,000)	12,000
Accrued interest	250
Total equity + liabilities	81,000

Cash +34,000, loss 1,250: how?

Financing (70,000) is not revenue; equipment paid (24,000) is an expense only for 4,000; unsold bikes (9,000) are not an expense; receivables (15,000) are revenue not yet collected; prepaid rent (3,000) is not an expense. Break-even ≈ 76 bikes (15,250 / 200).



Part A – Accounting around the world

Accounting develops where economies develop: five families of rules

Set of rules	Who issues them	Who uses them	Logic
IFRS (IAS/IFRS)	IASB (IFRS Foundation), London	listed companies in 140+ jurisdictions; EU consolidated accounts since 2005	principle-based; investors first
US GAAP	FASB, with SEC oversight	US companies; accepted in the US alongside IFRS for foreign issuers	rule-based, very detailed
EU Directive 2013/34/EU	European Parliament and Council	all limited companies in the EU, through national laws	minimum harmonisation, many options
National laws and standards	Parliaments and national standard setters (Italy: Civil Code + OIC)	non-listed companies	creditor protection, link with taxation
Cash basis	public sector rules, micro-entities in some countries	small entities, part of public administration	cash in, cash out

Why so many? Because accounting follows the economy that uses it: who finances companies (banks or markets), who protects creditors, how close accounting is to tax law. The two «cultures» behind the rules are the two bookkeeping systems of Part B.



Part A – The EU toolbox

Regulation, directive, recommendation: what changes for accounting

Instrument	How it works	Effect on comparability	Accounting example
Regulation	directly applicable in all Member States, same text, same date	maximum: identical rules everywhere	Reg. (EC) 1606/2002: IFRS mandatory for consolidated accounts of listed companies from 2005; each IFRS is endorsed by a Commission regulation
Directive	sets objectives and a framework; each State transposes it with a national law, with options and its own timing	partial: same skeleton, different flesh	Dir. 2013/34/EU (annual and consolidated accounts) → Italy: D.Lgs. 139/2015 amending the Civil Code; Dir. 2022/2464 (CSRD) → D.Lgs. 125/2024
Recommendation	non-binding; invites States or bodies to act	none, unless followed	Rec. 2001/453/EC on environmental information in annual reports

In Italy

Directives → Legislative Decrees (D.Lgs.) that rewrite the Civil Code (artt. 2423-2435-ter).

Regulations → immediately applicable; D.Lgs. 38/2005 only decides who may or must use IFRS.

Question

Two companies, one in Milan and one in Madrid, both non-listed, both under Directive 2013/34: can their balance sheets differ? Why?

(yes: national options, e.g. LIFO allowed in Italy, formats, thresholds)



Part A – Italy: who applies what

Three layers of rules for the same country

Companies	IFRS (D.Lgs. 38/2005)	Civil Code + OIC
Listed companies, banks, financial intermediaries, insurance groups	mandatory (consolidated and, with exceptions, separate accounts)	—
Other companies that prepare (or are included in) consolidated accounts, and other larger companies	optional, irrevocable choice	default
Companies eligible for abbreviated accounts (art. 2435-bis) and micro-entities (2435-ter)	not allowed	mandatory

OIC – Organismo Italiano di Contabilità

National standard setter since 2001; legally recognised by Law 116/2014.

Issues the OIC standards that interpret and integrate the Civil Code (OIC 11 to OIC 35).

Represents Italy in EFRAG.

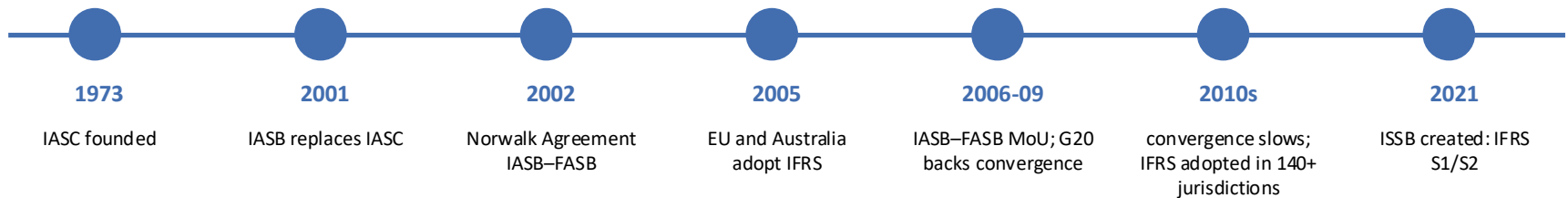
So an Italian IFRS adopter lives with three layers: IFRS for measurement and presentation; the Civil Code for approval, distribution of profits, reserves and the management report; tax law (IRES/IRAP) built on the accounting result. Non-listed companies: Civil Code + OIC, with the IFRS «borrowed» definitions of art. 2426 c. 2.



Part A – Two timelines of convergence

The world and the EU

World



EU



Note: the 2002 IASB–FASB agreement is the «Norwalk Agreement» (Norwalk, Connecticut).



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Part A – What «IFRS» contains

Bodies and documents

The bodies

- ✓ IFRS Foundation (trustees, monitoring board)
- ✓ IASB: 14 members, issues IAS/IFRS
- ✓ IFRS Interpretations Committee
- ✓ ISSB (2021): sustainability standards IFRS S1, S2

The documents

- ✓ Conceptual Framework (2018): not a standard, but the basis for all of them
- ✓ IAS 1-41 (issued by IASB, still in force in part) and IFRS 1-19 (IFRS 18 and 19 issued 2024)
- ✓ Interpretations: SIC (old) and IFRIC

Names to remember

- ✓ IAS 1 → IFRS 18 from 2027 (presentation)
- ✓ IAS 16, 38, 36, 40 (assets)
- ✓ IFRS 15 (revenue), IFRS 16 (leases), IFRS 9 (financial instruments)

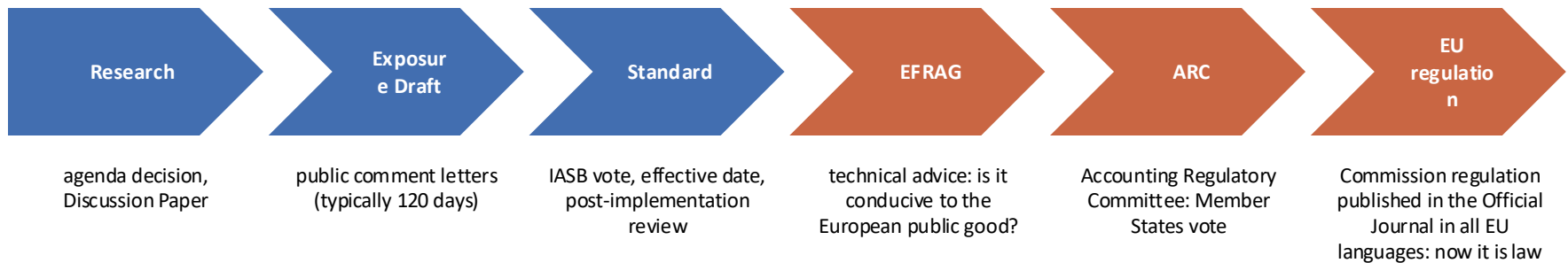
This is the course programme from 5 October.

Hierarchy in practice (IAS 8): a standard or interpretation that applies → if none, judgement based on similar standards and the Conceptual Framework → then other standard setters with a similar framework. The Framework never overrides a standard.



Part A – How a standard is born and enters EU law

IASB due process, then EU endorsement



IASB (global)

Why endorsement matters

The EU can adopt, reject or «carve out» a standard: it did so with IAS 39 in 2004. The EU version of IFRS is «IFRS as adopted by the EU».

European Union (endorsement)

Timing

Between the IASB standard and the EU regulation there are usually 6-18 months; a standard cannot be applied in the EU before endorsement (early application only if already endorsed).



Part A – What makes financial information useful

Qualitative characteristics (Conceptual Framework 2018)

Fundamental

Relevance: capable of making a difference to decisions (predictive or confirmatory value); materiality is entity-specific relevance.

Faithful representation: complete, neutral (supported by prudence: caution under uncertainty), free from error. Substance over form is part of it.

Enhancing

Comparability (between periods and entities; consistency of policies)

Verifiability (independent observers would agree)

Timeliness (available in time to influence decisions)

Understandability (for users with reasonable knowledge and diligence; complex matters are not omitted because they are difficult)

Cost constraint: the benefits of reporting must justify the costs. This is why small and micro entities get simplified formats and exemptions in every jurisdiction.

These characteristics are the yardstick against which every standard, and every national rule, can be judged. Prof. Aprile will start from here on 5 October.



Part A – Beyond financial reporting: sustainability reporting

From the NFRD to the CSRD, and the Omnibus

	NFRD (Dir. 2014/95, D.Lgs. 254/2016)	CSRD (Dir. 2022/2464, D.Lgs. 125/2024)
Who	large public-interest entities with > 500 employees (about 200 in Italy)	large companies and listed SMEs in waves; scope being narrowed by the Omnibus package (thresholds around 1,000 employees)
What	non-financial statement, standards at the company's choice (GRI)	sustainability statement under mandatory ESRS, double materiality, digital tagging
Where	separate report or in the management report	a dedicated section of the management report
Assurance	consistency check only	limited assurance by the statutory auditor or an independent provider

For this course: sustainability information sits next to the financial statements, not inside them, but the two must connect: climate risks affect impairment, provisions and useful lives. IFRS S1/S2 (ISSB) play the global role that ESRS play in the EU.

Check the status of the Omnibus package and of the Italian transposition before each edition of this lesson.



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From rules to bookkeeping

Same standards, different engines

Accounting standards say what to recognise, how to measure it and how to present it. They do not say how to keep the books. Two bookkeeping «systems» exist in the double-entry world, and they produce income statements with a different shape from the same transactions.

Patrimonial (asset-based) accounting system

Every entry is read as a change in assets / liabilities (VP) or in equity through profit (VE).

Inventory and work in progress are followed continuously.

Fabio Besta, La Ragioneria (1891-1916); W.A. Paton, Accounting Theory (1922); Anglo-Saxon practice: cost of goods sold.

Income accounting system

Every entry is read as a financial change (VF: cash, receivables, payables) or an economic change (VE: costs and revenues).

Inventory appears only at year end, as an adjustment.

Gino Zappa, Tendenze nuove (1927) and Il reddito di impresa (1937); Onida, Amaduzzi; E. Schmalenbach, Dynamische Bilanz (1919).

Notation for the next slides: VP $\pm$ = change in assets or liabilities; VE $\pm$ = economic change (revenue / cost); VF $\pm$ = financial change (cash, receivables, payables).



Part B – The notation on a bottle of water

A trader buys a bottle for 0.30 and sells it for 1.00

Patrimonial system (Besta)	Debit	Credit
VP+ Inventory (bottle)	0.30	
VP– Cash		0.30
VP+ Cash	1.00	
VP– Inventory		0.30
VE+ Profit on sales		0.70

Income system (Zappa)	Debit	Credit
VE– Purchase cost	0.30	
VF– Cash		0.30
VF+ Cash	1.00	
VE+ Sales revenue		1.00
(no inventory account during the year)		

Income statement, patrimonial

Profit on sales 0.70 → EBIT 0.70. The statement shows margins, not purchases.

Income statement, income system

Revenues 1.00 – purchases 0.30 → EBIT 0.70. The statement shows gross flows by nature.

Same profit, different information. Now try it yourselves on a manufacturing company, where the difference becomes visible.



Part B – Worked example: one production cycle, three sets of entries

Industrial company, amounts in euro

#	Event
1	Purchase of raw materials, paid by bank: 400,000
2	Start of production: all raw materials go into work in progress
3	Wages paid by bank: 500,000, of which 400,000 production and 100,000 SG&A
4	Production wages are capitalised on work in progress
5	Production completed: finished goods 800,000
6	All finished goods sold, collected by bank: 1,100,000

Three ways to record it

A: patrimonial system according to Besta (profit on sales).

B: patrimonial system, Anglo-Saxon variant (revenues and cost of goods sold).

C: income system (Zappa).

For each: journal entries with VP/VE/VF labels and the resulting income statement down to EBIT.

Before we look at the solutions, predict: will EBIT be the same in the three systems? Will the number of entries be the same?



Worked example – A: patrimonial system (Besta)

Six entries; the income statement shows only the margin

#	Entry	Debit	Credit
1	VP+ Raw materials inventory / VP– Bank	400,000	400,000
2	VP+ WIP inventory / VP– Raw materials inventory	400,000	400,000
3	VE– Wages / VP– Bank	500,000	500,000
4	VP+ WIP inventory / VE+ Wages (capitalised)	400,000	400,000
5	VP+ Finished goods / VP– WIP inventory	800,000	800,000
6	VP+ Bank 1,100,000 / VP– Finished goods 800,000 / VE+ Profit on sales 300,000	1,100,000	1,100,000

Income statement	
Profit on sales	300,000
Wages (SG&A)	(100,000)
EBIT	200,000



Worked example – B: Anglo-Saxon variant

Same six events; the sale is split into revenue and cost of goods sold

#	Entry	Debit	Credit
1	VP+ Raw materials inventory / VP– Bank	400,000	400,000
2	VP+ WIP inventory / VP– Raw materials inventory	400,000	400,000
3	VE– Wages / VP– Bank	500,000	500,000
4	VP+ WIP inventory / VE+ Wages (capitalised)	400,000	400,000
5	VP+ Finished goods / VP– WIP inventory	800,000	800,000
6a	VP+ Bank / VE+ Revenues	1,100,000	1,100,000
6b	VE– Cost of goods sold / VP– Finished goods	800,000	800,000

Income statement	
Revenues	1,100,000
Cost of goods sold	(800,000)
Gross profit	300,000
SG&A	(100,000)
EBIT	200,000



Worked example – C: income system (Zappa)

Three entries; production is invisible until year end

#	Entry	Debit	Credit
1	VE– Cost of raw materials / VF– Bank	400,000	400,000
2	no entry (internal transformation)		
3	VE– Wages / VF– Bank	500,000	500,000
4	no entry		
5	no entry		
6	VF+ Bank / VE+ Revenues	1,100,000	1,100,000

Income statement	
Revenues	1,100,000
Raw materials	(400,000)
Wages	(500,000)
EBIT	200,000



Part B – What if 20% of the goods are unsold at year end?

Same cycle, but only 80% of finished goods are sold: two minutes to predict the two EBIT figures

Events 1-5 unchanged. Event 6: the company sells 80% of the finished goods for 880,000, collected by bank. At 31 December, finished goods costing 160,000 are still in the warehouse. Prepare the income statement in the Anglo-Saxon variant and in the income system.

Anglo-Saxon variant		Income system	
Revenues	880,000	Revenues	880,000
Cost of goods sold ($80\% \times 800,000$)	(640,000)	Raw materials	(400,000)
Gross profit	240,000	Wages	(500,000)
SG&A	(100,000)	Change in inventories of finished goods (year-end adjustment: $VE+ / VP+ \text{ Inventory}$)	+160,000
EBIT	140,000	EBIT	140,000
Balance sheet: finished goods inventory	160,000	Balance sheet: finished goods inventory	160,000

The lesson

In the income system the inventory enters the books only through the year-end adjustment («rimanenze finali»), which corrects the costs of the period. Same EBIT, same balance sheet; the difference is when and how the information is produced.



Part B – Where the two systems live today

Formats of the income statement

	Income system (by nature)	Patrimonial system (by function)
Format	revenues, change in inventories, raw materials, services, personnel, depreciation	revenues, cost of sales, gross profit, distribution costs, administrative expenses
Who	Italian Civil Code art. 2425 (mandatory); many continental European companies; allowed by IAS 1 par. 102	Anglo-Saxon practice; US GAAP; allowed by IAS 1 par. 103 with disclosure of costs by nature
Strength	shows gross flows and value added; easy link with taxation and national accounts	shows margins (gross profit) and the cost of the product sold
Weakness	no gross margin; needs year-end inventory adjustments	cost allocation to functions requires judgement

IFRS 18 (from 2027)

Keeps the choice by nature / by function but adds mandatory categories (operating, investing, financing), an operating profit subtotal and disclosure of expenses by nature when the function format is used.

Final remark

Patrimonial system: knows the value of the company's assets at every moment. Income system: measures the period's income from realised revenues and related costs. Same double entry, two philosophies.



Wrap-up

Three exam questions and the answer to the opening question

Could you answer in five lines?

1. Why can two companies under the same EU directive present different balance sheets, while two companies under an EU regulation cannot?
2. An Italian S.p.A. not listed, with 300 employees: may it adopt IFRS? Must it? Which rules govern the distribution of its profit?
3. Record the sale of goods costing 80 for 100 in the patrimonial (Anglo-Saxon) and in the income system, and explain why the income statements differ.

Back to the opening question: Bergamo Bikes follows the Civil Code and OIC (it cannot use IFRS if it qualifies for abbreviated accounts); its income statement is by nature, so the unsold bikes appear as a change in inventories. The Manchester company would show cost of sales and gross profit. Same transactions, same profit, different picture.

Next: Prof. Aprile – the IFRS Conceptual Framework.



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