PROGRESSIVE DEPRECIATION IN HOUSING COOPERATIVE ASSOCIATIONS

- A case study on norm setters’ and practitioners’ arguments in a debate

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Preface

This thesis has to a large extent depended on the respondents of our interviews whom we therefore would like to thank for their participation and contribution. Further we would like to thank our tutor Thomas Polesie for his support throughout the writing process. Last but not least we would like to thank the students of our writing group for their continuous comments and constructive criticism.

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Abstract

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**Title:** Progressive depreciation in housing cooperative associations – A case study on norm setters’ and practitioners’ arguments in a debate

**Background and Problem:** The question of whether or not progressive depreciation on buildings in housing cooperative associations (HCAs) should be allowed is something that has been discussed for years. Assuming that the progressive method will not be allowed and hence will be replaced by the straight-line method, the costs will be brought forward. This would entail currently higher costs. Consequently the fee paid by the members of the HCA would probably need to be increased to avoid a negative result.

**Aim of thesis:** This thesis aims to illustrate a situation where it is difficult to unite norms and practice. We will investigate why the norm setters intend to exclude the progressive depreciation method on buildings from Swedish GAAP as well as why HCAs have the ambition to apply the method on their buildings. Further we will clarify what the consequences of prohibition of the progressive method of depreciation would be.

**Methodology:** This thesis has investigated the arguments for and against the progressive depreciation method on buildings through a case study of an ongoing debate. Structured interviews in combination with collected documents in the form of newspaper and discussion articles have been used to form the empirical chapter.

**Discussion and conclusion:** Eight arguments have been identified for applying progressive depreciation on buildings. These are: the deterioration pattern of the building, difficulties in explaining the concept of depreciation to members of the HCA, minimization of present costs, the inflation factor, the fact that the writing in ÅRL does not clearly forbid progressive depreciation, the fact that too many negative consequences would occur if the progressive method must not be applied, the fact that the straight-line method could imply that the annual fee probably must be increased in order to avoid a negative result in the income statement, which further would imply large amounts of piled up cash, which is undesirable, and lastly that the characteristics of HCAs, mainly concerning the external fund, imply that the purpose of depreciation is different in HCAs compared to other organizations. Four arguments have been identified against applying progressive depreciation on buildings. These are: that the method is not in line with ÅRL, that the method contradicts to the equality principle, that the deterioration does not follow a progressive pattern and finally the fact that the method does not take the matching principle into account. We further have concluded that a change from progressive depreciation to straight-line depreciation would entail a greater impact on the net income and counteractions to this are either to make a loss or to increase the fees.

**Keywords:** Housing cooperative association, progressive depreciation, depreciation methods, K2/K3, accounting norms and practice, Sweden
Abbreviations and definitions

**BFL** – Bokföringslagen (SFS 1999:1078) = The law of accounting

**BFN** – Bokföringsnämnden = The board of accounting; that is the government’s expert organ in the accounting field. The board’s main responsibility is to develop Swedish GAAP by producing accounting norms in terms of general recommendations and by providing information material (BFN, 2014e).

**BoRevision** = A national accounting firm specialized on housing cooperative associations (BoRevision, 2011).

**Bostadsrätterna** = A national service and interest organization for housing cooperative associations in Sweden. Bostadsrätterna has approximately 6 000 members in the form of housing cooperative associations and is thereby the largest housing cooperative organization (Bostadsrätterna, n.d.).

**BRL** – Bostadsrättslagen (SFS 1991:614) = The law of housing cooperative associations

**FAR** = Swedish trade association for accounting consultants, auditors and advisors. The organization develops the audit and advisory industry by publishing recommendations, education and referral activity (FAR, 2013).

**GAAP** = Generally accepted accounting principles

**HCA** - Housing cooperative association

**HSB** = The largest housing cooperation in Sweden with approximately 3 900 housing cooperative associations. The cooperative organization of HSB is owned and managed by its members (HSB, n.d.).

**Redovisningsrådet** = The council of accounting

**Riksbyggen** = One of the largest property managers in Sweden, with housing cooperative associations, commercial- and public property owners as customers (Riksbyggen, n.d.).

**SBC** – Sveriges BostadsrättsCentrum = One of the leading companies within housing cooperative in Sweden. SBC is a turnkey supplier offering economic, technical and legal services to housing cooperative associations (SBC, 2012).

**ÅRL** – Årsredovisningslagen (SFS 1995:1554) = The law of annual reports
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1. Introduction

In this introductory chapter we present the origin of the thesis. The background and problem discussion culminates into our formulated aim of the thesis and the research questions which we strive to answer. This is followed by limitations, contribution and a guiding disposition of the thesis.

1.1. Background

The Swedish accounting frameworks are facing a change as one of the standard setting bodies; Bokföringsnämnden (BFN) has developed a new regulatory framework, which consists of the so-called K-regulations. The new framework will be followed by most non-listed companies and economic associations from 2014. The purpose of the change in the accounting standards is to entail harmonization between Swedish and international rules, as well as to simplify the usage. To achieve this, all relevant regulations suitable for a certain category of company or organization will be placed in one of the four K-regulations, K1-K4 (PricewaterhouseCoopers, 2012, pp. 11-12).

The topic of progressive depreciation on buildings in housing cooperative associations, further on referred to as HCAs, has been discussed for years but has lately caused an even greater debate, due to the implementation of the new K-regulations. It was the Swedish newspaper Svenska Dagbladet that initially drew attention to the debate article from October 2013, where FAR’s policy group of accounting discussed whether or not progressive depreciation can be considered to be allowed within K2/K3 (Lennartsson, 2014b). The method of progressive depreciation means that the depreciation charge increases over time, and many recently constructed HCAs apply this on their buildings. See Appendix A for an illustration of different methods of depreciation.

1.2. Problem discussion

In the ongoing debate of whether or not it will henceforth be allowed to apply the progressive method of depreciation, we identify two viewpoints: one represented by norm setters, consisting of accounting professionals and BFN, and one represented by practitioners, consisting of housing cooperative organizations and administrators. From the debate it becomes evident that these two sides have different opinions and interests in the matter.

The purpose of depreciation is to reflect the actual use of the building’s economic benefits. To be able to apply progressive depreciation, one therefore has to make it probable that the consumption of the building is greater in the end than in the beginning of the period. Another way of expressing this is that one has to make it probable that the economic benefits of the building increases over time. FAR’s policy group of accounting stated that such detection is not possible. FAR therefore recognize that progressive depreciation cannot be considered to be in line with the new K-regulations and therefore HCAs might be forced to adjust their depreciation method in 2014 in order to comply with the new regulations (FAR’s policy group of accounting, 2013). Changing from the progressive to the straight-line method would imply bringing forward the costs. This would entail currently higher costs compared to if one would continue to apply the progressive method. Consequently, the fee paid by the members...
of the HCA would probably need to be increased to avoid a negative result, and fewer people would afford to move into newly constructed HCAs (Hellekant, 2014e). The debate illustrates the complications that occur when norms are applied into practice. We therefore find it interesting to examine the reason for the alteration of the norm since the norm setters’ and the practitioners’ opinions differ to such an extent. One of the core elements of the debate is the question regarding the purpose of depreciation. Another question is whether or not there are other factors concerning the particular and characteristic operations of HCAs that would complicate the application of the straight-line method.

What enhances the importance of the thesis is the fact that it is a question of a societal concern. Today there are nearly 23,300 active HCAs in Sweden, which own and administer one or several properties (hittabrf.se, 2014). This makes the HCA the most common kind of collectively owned houses in Sweden (Isacson, 2000, p. 20). Although progressive depreciation is only an accounting detail, it can lead to comprehensive consequences for members, and by extension, society as a whole. According to Lundén (2011, p. 45), there is a direct connection between the market price of the housing cooperative and the level of fee. We therefore conclude that there are reasons to connect the use of progressive depreciation with a possible housing bubble. This fact puts the debate in a wider perspective and makes the present study interesting to carry out.

Accounting norms and accounting in practice do not seldom differ, which increases the interest to investigate why companies deviate from accounting norms (Artsberg, 2005, p. 20). We concur and find it interesting to examine the grounds behind the case regarding progressive depreciation in HCAs. In order to do that it is valuable to map the different interests of the debate to be able to grasp why some want to apply the progressive depreciation method and others do not and to see how this is manifested in accounting. To get a clear view of the different interests we present an illustrative figure below, Figure 1.1, of the relevant interested parties of the debate regarding progressive depreciation in HCAs. Stakeholders of the HCA’s operations and accounting consist of norm setters and the profession, practitioners, current members of the association as well as potential buyers. In addition to the interests presented in Figure 1.1, lenders along with the state and local authority are important stakeholders as well, but these interests will not be in the center of this particular study.
1.3. Aim of thesis

The aim of this thesis is to illustrate a situation where it is difficult to unite norms and practice. To achieve this we will investigate why HCAs have the ambition to apply progressive depreciation on their buildings, as well as why the norm setters intend to exclude the method from Swedish generally accepted accounting principles (GAAP). We will investigate this by clarifying and discussing the arguments of both sides respectively. Further, to reach a deeper understanding, we will clarify what the consequences of prohibition of the progressive method of depreciation would be.

1.4. Research questions

Our research questions, which will help us to achieve the purpose of the thesis, consist of one main question with three sub-questions.

Why do norm setters’ and practitioners’ opinions diverge in the matter of depreciation on buildings in housing cooperative associations?

- Why did the debate arise?
- What, in the current debate, are the arguments for and against the progressive depreciation method on buildings?
- What would be the consequences in a situation where the progressive method of depreciation on buildings was not permitted?

1.5. Limitations

We will limit the thesis to exclude component depreciation, although it is relevant in the context of buildings and the K-regulations. Component depreciation, which will be required when applying K3, will have great effect on accounting, especially for companies that own properties (SABO, 2012). We will limit our research to a national level, mainly due to the HCA’s connection to Sweden. Further the thesis will be limited to focus on the largest
operators of HCAs, as these are expected to have a wider knowledge about the issue and to be well updated and engaged in the debate. Finally, we will exclude material from the debate published after April 28, 2014. This is due to time constraints, and the reason we want to include statements from April 28 is because this is when BFN will publish their definite opinion on the matter.

1.6. Contribution

The contribution of this thesis is to provide a clarification of the arguments of the debate regarding progressive depreciation on buildings in HCAs, by presenting the issue from different perspectives. The thesis is intended to form a compilation of the arguments and interests of the debate and to exemplify and open up for further discussion on the subject. This will hopefully help understanding the origin and development of the debate to further be able to fully grasp the core of the issue. Furthermore we believe that our contribution is of relevance due to the societal concern of the issue.

1.7. Disposition

The thesis consists of seven chapters. In the beginning of each chapter, there is an explanatory paragraph to present the outline of the chapter. The first chapter found above is an introduction to the thesis. It contains a problem discussion, which leads up to the purpose and the research questions of the thesis. In chapter two there is a methodology section, describing and motivating the chosen research method. It further contains a discussion of the validity, reliability and credibility of the thesis. The third chapter consists of the theoretical frame of reference of the thesis. This is followed by the fourth chapter consisting of a presentation of the empirical findings from the conducted interviews and collected documents. In the fifth chapter the theoretical framework and empirical findings are connected in a discussion which contributes to the sixth chapter where conclusions, answers to the research questions and suggestions for future research are presented. Chapter seven consists of references used in the thesis, and finally an appendix is found.
2. Methodology

In this chapter we present the methods that we have employed to address our research question. It is intended to be a statement of our theoretical position and to account for how we have collected and analyzed data. We also review the issues and discuss the reliability, validity and credibility of methodology.

2.1. Choice of method

Our intention has been to let the empirical findings determine which theories to use, which means that we have applied an inductive approach. The opposite, where one proceeds from theory to empiricism, is called a deductive strategy (Jacobsen, 2002, p. 35). The purpose of the project has to be crucial when determining which method to use. The choice of method should be done adjacent to the choice of theoretical perspective and the actual research question (Trost, 2010, p. 33). To answer our question we have chosen to do an explanatory case study with a qualitative approach. This is consistent with what Trost (2010, p. 32) states, as he explains that one should carry out a qualitative study if the research question is based on understanding or finding a pattern of some sort. Our aim was to understand and find an explanation regarding why HCAs want to use progressive depreciation and why the norm setters do not find this to be in line with Swedish GAAP.

The case study is suited for research questions regarding “how” or “why”, which purpose is to describe or explain, when investigating a contemporary phenomenon within its real-life context (Yin, 2003, p. 5). With regard to our research question and the fact that it is a current and contemporary debate that we have aimed to contribute to, it was suitable to carry out a case study.

2.2. Data collection

For data collection in case studies there are essentially six sources of evidence: documents, archival records, interviews, direct observation, participant-observation, and physical artifacts (Yin, 2003, p. 83). Our main source of evidence was interviews with informed persons, but we also collected evidence from documentary information in the form of newspaper clippings and articles appearing in mass media. The fact that there is an option to use different sources of evidence is one of the major strengths of case study data collection (Yin, 2003, p. 97). To support the information collected from the interviews, and thereby enhance the credibility of the study, we included a second source of evidence in the form of documents.

2.2.1. Qualitative interviews

Qualitative interviews are characterized by simple and direct questions which enables complicated and comprehensive answers (Trost, 2010, p. 25). Since our purpose was to find out why the application of progressive depreciation is preferable for the HCAs and how this is looked upon from the norm setters’ perspective, it has been of importance to be able to ask open-ended questions in order to obtain as much information from the interviewees as possible.
The interview is one of the most important sources of information for a case study (Yin, 2003, p. 89).Interviews as a source of evidence in case study research have both strengths and weaknesses. The strengths are that they are targeted on the case study topic, and that they are insightful. The weaknesses consist of both response bias and bias caused by an unfortunate construction of questions. Other weaknesses are the risk of deviations due to poor recall from the interviewee and that the interviewee gives what interviewer wants to hear (Yin, 2003, p. 86). These strengths and weaknesses were taken into account throughout our empirical data collection and were acknowledged when analyzing the empirical findings.

2.3. Selection and brief presentation of the respondents

We have done a non-random selection of respondents for our interviews. The profession and experience of the individuals have been taken into account in the selection of respondents. We have intended to get respondents representing both sides of the debate, that is both norm setters and practitioners.

The following persons participated in our interviews:

- Caisa Drefeldt – authorized auditor at KPMG, also works at BFN and is a member of FAR’s policy group of accounting. Personal meeting on March 4, 2014.
- Lars Hörnesten – CFO at HSB. Telephone interview on March 6, 2014.
- Matilda Öster – consultant of HCAs at SBC. Personal meeting on March 18, 2014.

We also tried to get in contact with an auditor at Borevision, which is an audit firm specialized in HCAs. However, no one was able to participate in an interview.

2.4. Conducting of interviews and questionnaire

The method of interview that we have applied is a mixture of personal meetings and telephone interviews. The reason for the mixture was mainly due to geographical circumstances, as limitations in time and capacity did not enable us to conduct all interviews as personal meetings. Our interviews have further been open and individual, which according to Jacobsen (2002, pp. 160-161), is the most suitable kind of interview when a relatively few number of units is examined and when one is interested in what the individual person says and how he/she interprets a specific phenomenon. Interviews conducted face-to-face are preferable due to the fact that it becomes easier to have an open conversation, and one can also better observe reactions of the interviewee. Telephone interviews, on the other hand, have the benefit of anonymity, which reduces the risk of the so-called “interviewer effect”. This effect implies that the interviewer influences answers given by the interviewee (Jacobsen, 2002, pp. 161-162). Our mixture of methods might be considered advantageous because there are both pros and cons with both methods of interview.
Since qualitative interviews are time-demanding, we kept the number of interviews low with carefully selected persons to maintain a high quality on the whole body of interviews. About a week before each interview we sent out a questionnaire, which can be found in Appendix B, so that the respondent would have the opportunity to look through the questions to be prepared and so that we would get thoughtful responses. As the interviews were conducted in Swedish, the questionnaires sent out were in Swedish as well, and have thereafter been translated. To be able to correctly reproduce the spoken dialogues that are the interviews, we have used a digital voice recorder. The respondents were asked for permission to use it before recording.

When it comes to the interview method, Trost (2010, p. 39-40) discusses the two concepts standardization and structuring. Our interviews have had a low degree of standardization in the meaning that we adapted questions for different respondents, and we also asked supplementary questions based on what the interviewee spoke of. On the other hand, we have had a high degree of structuring, since the interviews were connected to a certain area. However, our questions were of an open-ended nature, that is without set responses. With respect to the short time of our interviews, approximately 40 minutes each, they can further be considered to have been of a focused nature. Focused interviews are interviews that last for a short period of time and hence are more likely to be following the questions from the case study protocol. The questions of focused interviews can nevertheless be of an open-ended type (Yin, 2003, p. 89).

2.5. Theoretical position

The theoretical foundation has been used to process and analyze the empirical findings and hence achieve our aim and answer our research questions. The theoretical framework consists of four different areas, which we found most relevant. The areas are: Swedish accounting norms regarding deprecation, the economy and accounting of HCAs, depreciation and depreciation methods, and institutional theory regarding isomorphism and legitimacy.

2.6. Secondary data

The information presented in the theoretical frame of references has been collected from books and theses from the library at the University of Gothenburg. The data bases that have been used are Business source premier and FAR Online, both from the University of Gothenburg. As far as it has been possible, the main source has been used, and criticism of the sources has been applied throughout the thesis. The following keywords in different combinations have been used to search for relevant information: "depreciation method", "depreciation", "building", "accounting", "accounting theory", "institutional theory".

2.7. Analysis of the evidence

The analysis has been carried out by setting the concepts and theories presented in the chapter of the theoretical framework against the collected empirical data and thereafter discussing and analyzing it. After the interviews we listened repeatedly to the recorded material to make sure we transcribed it with the greatest care. We had an analyzing approach from the beginning
When working with the transcribed text. We transcribed our collected material from both interviews and newspaper articles and afterwards both of us read through the text several times to find similarities and thereby get ideas for relevant areas to discuss. Thereafter the data was placed under identified areas based on their relevance to our research question. We have summarized the over-all perspective that our respondents have described and further exemplified this with quotes. We have kept the quotes relatively short and edited parts of them where respondents are repeating themselves or use spoken language. All the interviews were conducted in Swedish and the quotes found in our empirical material have been translated by us.

We will not be able to draw any general conclusions, but instead we aim to see if more specific conclusions emerge from the particular context that is the given theoretical perspective and the given situation. Furthermore, we want to make it clear that this thesis was written under circumstances when the debate on progressive depreciation between norm setters and practitioners was ongoing, and hence the outcome of the situation was not clear. This means that new circumstances regarding the issue have occurred as the writing process was carried through, which further implies that our interviews have been held previous to some interesting occurrences.

2.8. Reliability, validity and credibility

The quality of the study is often judged based on its reliability and validity. When reviewing reliability, one should look at how thorough the examination is and that it is not exposed to influences of chance. Validity regards how valid the study is by looking at if one has examined what one intended to examine. The concepts of reliability and validity derive from a quantitative methodology, and they therefore become unsuitable when executing a qualitative study. However, it is still of importance that the data collection is done in a manner that makes the data adequate and relevant. Credibility is one of qualitative studies’ greatest issues, and one must be able to show that the data collection has been done in a way that provides serious and relevant data for the research question (Trost, 2010, pp. 131-134). With this in mind, we have been aware of the impact that the selection of interviewees, but also which questions and in what manner questions were asked have had on the findings. We understand that the findings have been dependent on the chosen interviewees and the questions asked. Still, we believe that the credibility of the study is maintained by the thorough selection of respondents for our interviews and the worked through questionnaire. Regarding the collected documents we take notice of the fact that they have been written by journalists and not by accounting professionals. We are aware that the statements from relevant persons have been processed by journalists. Finally, we want to clarify that we are not aspiring to draw general conclusions based on our findings since they are not applicable in a different context. We rather aim at entering the debate and exemplifying for further discussion on the subject.
3. Theoretical framework

In this chapter we present the theoretical framework of the thesis which aims to describe the concepts that will be used to process the problem. The chapter is divided into four parts which are: the Swedish regulatory framework and norms, HCAs, depreciation, and norms and practice. All parts are further used when analyzing the collected empirical findings.

3.1. The Swedish regulatory framework and norms

In this section we intend to clarify how the Swedish legislation is structured and to explain the difference in the former and new regulations regarding depreciation.

An HCA is an economic association and is therefore obliged to follow BFL, ÅRL and BFN’s norm setting (BFN, 2014d). According to ÅRL (SFS 1995:1554) 2:4, the valuation in both the balance sheet and the income statement shall be made in compliance with reasonable caution. This accounting principle that means that valuations of assets are to be done with reasonable caution is called the conservatism principle. The interpretation of the phrase reasonable caution implies that undervaluation of assets and overvaluation of debts cannot be allowed. The purpose of the principle is to make sure that the result under no circumstances is to be overrated but rather underrated, concerning the valuation of both assets and debts (Gröjer, 2002 p. 62). Further, there are three attributes that an annual report needs to attain according to ÅRL. These are Swedish GAAP, perspicuity and true and fair view. (PricewaterhouseCoopers, 2012, pp. 18-19) Swedish GAAP consist of both legislation and accounting norms. The purpose of the norms is to supplement the legislation and to create homogenous accounting standards. BFN is the main norm setter in Sweden and is now also responsible for the norms focused on Swedish companies whose shares are an object of public trade that previously were formed by Redovisningsrådet (PricewaterhouseCoopers, 2012, p. 11).

Swedish GAAP is stated as “a traditional interpretation of legislation and accounting norms, understood on the basis of these regulations’ purpose and general principles which they express” (own translation). Practices regarding accounting can be used for a complementary interpretation in the cases where regulations are missing. BFN’s general advice and recommendations play an important role when evaluating whether or not a specific solution can be considered to lie within Swedish GAAP. The meaning of the attribute perspicuity ought to be to make the annual report clear by keeping the detail information on a level that does not make it difficult to understand the essentials of the material. The third attribute, true and fair view, is an overall quality standard that an annual report needs to achieve. True and fair view means that both balance sheet and income statement along with notes are to be established as a whole in order to provide a true and fair view of the company’s situation and result (PricewaterhouseCoopers, 2012, pp. 18-19).

3.1.1. The K-regulations

In 2004 BFN decided to make a change in their norm setting procedure by introducing the K-regulations. Before the K-regulations, BFN published general advices which were based on
the recommendations from Redovisningsrådet but adapted for non-listed companies. Redovisningsrådet’s recommendations and BFN’s general advice are basically the same, except that a greater deal of the requirements for additional information in Redovisningsrådet’s regulations has been left out in the general advice. Before the K-regulations came into force, companies had the option of choosing between Redovisningsrådet’s recommendations and BFN’s norms, but for fiscal years that start after 31 December 2013 the annual report is to be set up according to one of the K-regulations. The intention is to phase out the old norms and place all relevant regulations, suitable for a certain category of company or organization, in one of the four K-regulations, K1-K4. The main regulations will be K3, while K1 and K2 are simplified regulations that some companies will be able to choose instead of K3. The final K-regulation, K4, is intended for companies who voluntarily apply IFRS in their consolidated financial statements. Hence, HCAs will be able to choose between K2 for smaller economic associations (BFNAR 2009:1) and K3 (BFNAR 2012:1) (PricewaterhouseCoopers, 2012, pp. 11-12).

3.1.2. The difference in the former and new regulations regarding depreciation

In order to give a concrete form to the debated change in regulations we intend to explain the difference in the former regulations versus the new K-regulations concerning depreciation on fixed assets.

3.1.2.1. Guidance before the K-regulations

In their general advice BFNAR 2001:3, which regards accounting of fixed assets, BFN (n.d.) has stated how Redovisningsrådet’s recommendation RR12 is to be applied in non-listed companies that have chosen not to apply the latter.

In BFN’s guidance regarding fixed assets it is stated that the chosen method of depreciation shall reflect how the value of the asset is used successively. It is further stated that different methods of depreciation can be used in order to systematically distribute the depreciable amount over the period of utilization. Four examples of depreciation methods are given: straight-line depreciation, declining balance depreciation, progressive depreciation and unit of production depreciation (BFN, n.d., p. 11). The following formulation is derived from BFNAR 2001:3 and explains the view BFN had on progressive depreciation:

The method that best reflects how the economic value of the asset for the company is used should be chosen. Progressive depreciation method is possible for fixed assets with a long life-span and insignificant technical development. Conditions to apply this method for industrial fixed assets, however, seldom occur (BFN, n.d., p.13, own translation).

In FAR:s recommendation nr 3, which considers fixed assets, different methods of depreciation are suggested, which are straight-line, declining balance, progressive and unit of production method of depreciation. It is further stated that for fixed assets with a long life-span and insignificant technological development (such as housing or office buildings) the so-called annuity method can be suitable (FAR, 1996, p. 564). The purpose with this formulation was to allow the size of depreciation charges to correspond to amortizations of an annuity
loan. However, the recommendation was repealed in 2001, as RR 12 was developed, which also includes the formulation about progressive depreciation but without connection to annuity loans (FAR’s policy group of accounting, 2013).

In the accounting statement RedU 12, which is also applicable for HCAs, FAR has provided additional guidance on the subject of depreciation on buildings when applying ÅRL. It is stated that depreciation cannot be omitted solely because the book value of the building is lower than the fair value. Properties are divided into buildings and land. The land shall not be depreciated, and since it ought to be the land that increases in value in the long run, this shall not be reflected in accounting. It is also stated that buildings shall be depreciated until the book value is zero and not to a residual value. This derives from the fact that the usual purpose with buildings is not to replace it on a regular basis (FAR, 2011).

3.1.2.2. Guidance in K2 (BFNAR 2009:1)

K2 (BFNAR 2009:1) is a general advice that can be applied by economic associations classified as smaller companies according to ÅRL 1:3. The general advice is to be applied as a whole without any deviations (BFN, 2011, p.13). In BFN’s guidance of K2, where depreciation of intangible and fixed assets are commented, no methods of depreciation are mentioned. There is only a reference to ÅRL 4:4, which states that fixed assets with a limited period of utilization are to be depreciated systematically over this period (BFN, 2011, p. 74).

3.1.2.3. Guidance in K3 (BFNAR 2012:1)

K3 (BFNAR 2012:1) is the general advice that shall be applied by all companies who apply ÅRL, with the exception of IFRS companies and those companies who have chosen to apply BFNAR 2008:1 (K2), BFNAR 2009:1 (K2) or RFR 2 (BFN, 2012, pp. 11-12).

The general advice regarding method of depreciation states that the company should choose a method of depreciation that reflects the anticipated use of future economic benefits of the fixed asset. In the commentary to the general advice three examples of depreciation methods are provided: the straight-line, the declining balance, and the unit of production method of depreciation (BFN, 2012, p. 144).

3.2. Housing cooperative associations

In this section we present relevant information regarding the specifics of HCAs with emphasis on the principles applied as well as characteristics of accounting.

An HCA is an economic association whose main goal is to grant housing usufruct to its members for an unlimited amount of time. With this usufruct follow both rights and obligations for the member. The member has the right to use a certain apartment and the obligation to take care of and tend to the apartment (Isacson, 2000 p.11).
3.2.1. Important principles for housing cooperative associations

3.2.1.1. The self-cost principle

Connected to HCAs there are two central principles of particular importance. The first one is the self-cost principle which entails that the purpose of the HCA shall be to favor the interests of its members. The fee that is paid by the members shall be set to a level that covers the costs of the association, as long as the association does not have other incomes that will cover the costs. Thus, the purpose is not to make profit on the expense of the members (Lundén, 2011, p.32). Despite the self-cost principle, it is not crucial for the association to break even each year. The result can vary to some extent in the short run (Lundén, 2001, p. 34). Nevertheless, in a further perspective the association has to balance its accounts, or it can lead to liquidation, or the members have to contribute additional capital. If there is a surplus, it becomes a reserve in the form of non-restricted equity and goes into the retained earnings. If there is a deficit, it primarily decreases the retained earnings and thereafter other equity if needed. Unlike in the legislation for joint-stock companies, there are no legal restraints regarding how long an association can run its activity with a deficit (Lundén, 2011, p. 35).

3.2.1.2. The equality principle

The other principle is called the equality principle. The principle can be found in Lag (SFS 1987:667) om ekonomiska föreningar, where in 6:13 it is stated that the board or other deputy of the association may not carry out a legal act, or other act that is meant to give an improper advantage to a member or anyone else, that entails a disadvantage for the association or another member. Hence, the principle implies that members shall be treated equally, and this should be valid over time. This means that it cannot be considered right to charge unjustifiably high fees from current members, for example, by amortizing large amounts of the property loans paid by high fees, in order to be able to use the capital surplus to lower the fees of later generations of members (Lundén, 2011, pp. 35-36). Lundén (2011, p. 36) further implies that it is not preferable to accumulate a capital surplus with respect to the fact that the association is not supposed to be engaged in capital investing. He also notes that it is as much a disadvantage to initially charge too low a fee as to charge a fee higher than necessary.

3.2.2. Accounting of relevance in housing cooperative associations

It is the board of the HCA, which consists of voluntarily engaged members of the association that is responsible for the association’s accounting even in the case when an outside administrator is involved (Lundén, 2011, p. 78).

For HCAs there are two possible methods to accrual large expenses. The methods consist of either a provision for future expenses or depreciation based on expenses already occurred. Provisions are to prefer over depreciation to prevent erosion of the association’s capitalization. It is, however, a necessity to accrual through depreciation in the case of large expenses, such as the building of the HCA’s house and pipe replacements (Lundén, 2011, p.36). Depreciation shall be done on the property in accordance with an established plan.
Regardless of this fact, many HCAs let their depreciation depend on the amortizations of the property loan, which is incorrect (Lundén, 2011, p. 39).

The annual fee intends to cover the costs of the association’s operations, including current expenditure for operation, financing costs, maintenance and provision to an external and possibly an internal fund (Lundén & Bokelund Svensson, 2013, p. 73). In BRL it is decided that the HCA is obliged to specify in their statutes how means are provided in order to ensure the maintenance of the house. Most HCAs do this by an external fund, where the amount of money that shall be implemented to and from the fund is calculated. This is often done by using a maintenance plan. The means provided to the external fund shall only cover what the association is responsible to maintain, and not the parts of the building that the members are responsible of. Reposts to and from the external fund can be used to maintain a stable and correct level of the fee. The external fund derives from the maintenance plan. The maintenance plan is important to be able to set the correct annual fee. Pipe replacements are not included in the maintenance plan since they entail a high but seldom occurring cost. The annual cost of pipe replacements shall instead be covered by the depreciation (Lundén, 2011, pp. 49-51 and pp. 58-59).

3.2.2.1. The depreciation and provision effects on accounting

When HCAs accrual large expenses through depreciation and provision to the external fund, it has different effects on accounting. These effects are illustrated below.

Depreciation is a cost for the period which it is matched to and reflected in the income statement thereby having decreasing effect on the net income. In the balance sheet, this implies a decrease of equity while the asset is diminished with the same amount (Edenhammar, Norberg & Thorell p. 108). The external fund has a separate post under the association’s restricted equity. A provision to the external fund is thereby not a debt, but it cannot be classified as an ordinary provision either, since it is not directed towards an outside party. However, it can broadly be seen as a provision (Lundén, 2011, p. 50). Decreasing or increasing the external fund is done by a repost between restricted and non-restricted equity. When providing to the external fund, the external fund increases, and non-restricted equity in the form of either this year’s net income or retained earnings decreases. When such repairs and maintenance work are done on the property as part of the maintenance plan, the external fund is to be decreased. The repairs are booked as a cost of the relevant period, which lowers the net income while the dissolving is booked as a repost between restricted and non-restricted equity (Lundén, 2011, p. 52). The two ways of accrual are illustrated through two numerical examples below.

Assuming the building depreciated had an initial value of 500 000, a period of utilization of 100 years and a residual value of 0, there would be an annual depreciation of 5 000 by using the straight-line method of depreciation.
Assuming a profit in the association of 200 000 and that according to the maintenance plan it is decided to repost 50 000 from the external fund and to repost 100 000 to the external fund and the remaining 150 000 is moved to the retained earnings.

In conclusion, it becomes apparent that the greatest difference between depreciation and provision to the external fund is that the latter does not pass through the income statement but is barely a repost in the equity. It is first when the repair or maintenance actually is done that the cost affects the income statement.

### 3.3. Depreciation

*This third part provides an account of the basic accounting theory regarding depreciation by explaining the meaning of depreciation and different depreciation methods that can be applied. It also includes previous research regarding depreciation.*

According to ÅRL (SFS 1995:1554) 4:4, fixed assets with a limited period of utilization are to be depreciated during this period. However, according to Edenhammar, Norberg and Thorell (2013, p. 110-111), the law does not prescribe any particular depreciation method, except that a systematic depreciation is required based on the deterioration of the asset. When calculating the size of the depreciation, there are, at least, three factors that affect the amount: the calculation of the value of acquisition, an estimation of the economic life-span in the company and an estimation of the salvage value of the asset at the end of its depreciable life (Edenhammar, Norberg & Thorell, 2013, p. 110-111).
The purpose of depreciation is to reflect the economic deterioration of the asset, which is matched to the income generated by the asset of each year that the asset is used in the company (Edenhammar, Norberg & Thorell, 2013, p. 108). This approach is based on the matching principle, which intent is that costs are to be related to the same period as the income, that is to match the cost and the income (Edenhammar, Norberg & Thorell, 2013, p. 42). Another viewpoint of depreciation, that one can come across among laymen rather than among theorists, is that depreciation is considered to equate with a decline in market value. Theorists in the field have a different opinion, maintaining that the depreciation course should reflect generated earnings, as well as cost savings, and not market value (Smith, 2006, p. 163).

### 3.3.1. Methods of depreciation

Gröjer (2002, pp.112-113) deals with four basic methods of depreciation. The first one is constant depreciation, also known as straight line depreciation. This method implies that the asset is depreciated with the same amount each period, which entails an obvious benefit considering its easy calculation. According to Edenhammar, Norberg and Thorell (2013, p.111), this is the most commonly used method, despite the fact that very few, if any, fixed assets actually do follow a straight line deterioration pattern. Gröjer (2002, pp.112-113) also mentions progressive depreciation, which involves relatively small depreciation at the beginning of the period of utilization to successively increase over time. Considering the matching principle, an assumption has to be made that the asset’s effectiveness increases over time, and thereby the income does. The third method of depreciation is the declining balance depreciation, which is the opposite of progressive; hence the depreciation amounts are largest at the initiation and decrease further in the depreciation period. Finally, Gröjer (2002, pp. 112-113) mentions varying depreciation, also known as unit of production depreciation, which means that depreciation varies with the use of the asset. This implies that the asset’s value decreases with how much it has been used during the period and not with the aging of the asset. The four mentioned methods are depicted in the diagrams in Appendix A, both on account of depreciation and on the value of the asset that is subject to depreciation.

In their article, Fredman and White (1973) present the annuity method of depreciation which they advocate as a systematic and rational method of depreciating buildings. The method provides low depreciation charges in the beginning which thereafter increase during the life of the asset, and is thereby a form of progressive depreciation. They claim that this method of depreciation conforms to the way most buildings depreciate as buildings are long lived and deteriorate rather slowly in the beginning and that deterioration probably sets in more profoundly during the later part of the building’s life. It is therefore indicated that an increasing depreciation charge over time is the most logical approach when depreciating buildings (Fredman &White, 1973, pp. 549-551). The authors are of the opinion that the straight-line depreciation method, which is usually recommended for long-lived assets, cannot be justified for a building that depreciates slowly during the first years unless the conservatism principle is applied. They further believe that the main reason for accountants in the US to take offense to the annuity method is the conservatism principle, since the annuity method does not allocate the cost evenly over the life of the asset but instead pushes the costs forward (Fredman &White, 1973, pp. 564). The depreciation charge is calculated by
producing a constant ratio of net operating income, that is cash flows less depreciation expense, to beginning of the year book value over the life of the asset. In order to do this, one needs to calculate the internal rate of return of the building (Fredman & White, 1973, p. 553). When comparing the annuity method with the straight-line method, it appears that the annuity method provides a net operating income that declines over the years while depreciation expense rises, whereas the straight-line method provides a rate of return that increases over time while depreciation expense is the same over the years (Fredman & White, 1973, pp. 560-562).

In her research Stark (1994) treats depreciation in two industries including the sector of multi-apartment dwellings. Stark investigates the application of depreciation in the so-called SABO companies, which is an industry organization for public housing companies, and also in HSB, which represents the HCAs. In the SABO companies, it has often been claimed that a principle implying that amortization equals depreciation is practiced. In practice, it simply means that the amortization process decides the formation of depreciation which will be influenced by changes in regulations regarding repayment of loans. Hence it is due to the state loan system that depreciation has been progressive under the period of time that has been investigated, which is a period of eight years (1985-1993). The progressiveness occurred because the fact that the interest represented the larger part of the cash flow paid to the lender in the beginning of the life-span of the building, while the amortizations represented the larger part in the end of the life-span (Stark, 1994, pp. 138-139). The mentioned amortization principle, however, was abandoned in 1990 by the SABO companies, and instead SABO recommended an annuity model for depreciation (Stark, 1994, p. 139). This change derived from the fact that the principle could not be considered to be in line with Swedish GAAP and also the fact that the plan of depreciation must not be affected by financing of property. Another reason that made the principle difficult or even impossible to use was the fact that most newly taken loans were free of amortization the first five years. The annuity model, recommended instead of the amortization principle, is described to be based on a theoretical annuity loan where the amortization was to be seen as a depreciation expense. Depreciation is low in the beginning of the building’s life and is thereafter following a progressive pattern (Stark, 1994, pp. 148-149). Stark also investigated the HSB cooperation to find out how they treated the question of depreciation. The amortization principle was practiced during the entire period of time investigated, even after the principle was abolished by the SABO companies. In 1985, HSB stated that the purpose with depreciation was “to determine an annual fee that does not provide liquidity problems”. HSB also requests that depreciation should be easy to explain and understand, due to the fact that many of those who make decisions in associations (the board) do not have an economic education. In the beginning of the 1990’s, an additional rule was stated in the statutes which states that provision to a maintenance fund is to be done according to the maintenance plan (Stark, 1994, pp. 151-154).

In his article, Sweeney (1931, p. 165) discusses the so-called orthodox method which refers to the depreciation method used at the time. Sweeney claims that the orthodox depreciation method, which implies that the depreciable amounts are equally distributed over the life-span of the asset, assumed that when the fixed-asset cost is distributed over later periods of time,
they will continue to represent the same economic value that they had initially. He claims that the method ignores the difference in value of the currency (Sweeney, 1931, p. 165). The author recognizes as an advantage with the orthodox method, the fact that it is simple to calculate and perform. The disadvantages, on the other hand, are the risk of either under- or over-maintenance of real capital (Sweeney, 1931, p. 178). As an extreme example, he explains that under the great inflation period in Germany, the orthodox method that was based on the original book cost could no longer be useful when it came to maintaining the substance of capital (Sweeney, 1931, p. 166).

3.4. Norms and practice

This fourth part accounts for theories regarding norms and practice with the institutional theory as a basis. This section begins by describing the concepts of theory, norms and practice and thereafter the base for the institutional theory is explained.

Accounting as a concept can be viewed upon from different angles. Due to this each of the concepts accounting theory, accounting norms, and accounting practice are defined and distinguished as an introduction to this section. Accounting theory can be divided into normative and descriptive theory. The normative theory implies suggestions and models for suitable accounting solutions and systems. The descriptive one, on the other hand, aims to explain why the solutions in practice are what they are (Artsberg, 2005, pp. 17-18). A general definition of the concept of theory presented by the author is: “systematic studies of a field with proven methods to obtain a collected and foreseeable knowledge” (Artsberg, 2005, p. 18). Accounting norms are a combination of what is considered to be principally desirable and what is considered to be practically feasible. The accounting profession often looks at accounting theory and thereafter considers what is possible and desirable to do in practice. This means that the development of the accounting norms follows the same pattern as other legislation and norms. Furthermore, argumentation plays an important role for accounting people working with normative statements. Accounting practice is studied from the perspective of why things are as they are, rather than how it should be. It is the actual accounting solutions applied by companies and not the norms that are focused upon (Artsberg, 2005, pp. 19-20).

![Figure 3.4: The relation between accounting theory, accounting norms and accounting in practice](image-url)
The accounting field and the development of accounting are complicated areas, and there is no general theory that fully captures all aspects (Artsberg, 2005, p. 431). However, one theory that can be used for analysis on the development of accounting and that is, according to Artsberg (2005, p. 431), the most suited theory for this area, is the institutional theory.

3.4.1. Institutional theory

The institutional theory developed in various forms in areas such as political science and economics, in the end of the 19th century (Eriksson-Zetterquist, 2009, p. 7). The theory clarifies why the process of changing accounting is slow, by explaining that when people have a habit of carrying out something in a certain way, they tend to see it as the correct way (Artsberg, 2005, p. 431). The institutional theory also shows that organizations are affected by the social environment (Tengblad, 2006, p. 9). A development of the early institutional theory took place in the 1970’s, and was named the new institutional theory. Central articles on this developed theory are “Institutionalized Organizations: Formal Structure as Myth and Ceremony” (1977) by John Meyer and Brian Rowan and “The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields” (1983) by Paul J. DiMaggio and Walter W. Powell (Eriksson-Zetterquist, 2009, p. 63). The new institutional theory focuses on how organizations gain legitimacy and how they use each other to survive and become more harmonized (Eriksson-Zetterquist, 2009, p. 63).

3.4.1.1. Isomorphism

Isomorphism is the concept that best captures the process of harmonization in organizations. This concept is suitable to consider, as it enables to comprehend politics and ceremony that imbue much of modern organizational life (DiMaggio & Powell, 1983, p. 66). DiMaggio and Powell (1983, p. 67) recognize three mechanisms when it comes to institutional isomorphism: coercive, mimetic, and normative isomorphism.

3.4.1.1.1. Coercive isomorphism

Isomorphism can be forced on organizations, both formally and informally, by other organizations that the given organization depends on and by cultural expectations in society. The actions of organizations are sometimes a direct response to requirements from the authorities (DiMaggio & Powell, 1983, p. 67). Organizational structures have increasingly come to reflect rules that are institutionalized and legitimated within the state, as a consequence to the fact that rational large organizations have expanded their control over social life. This further means that organizations are increasingly homogeneous within given domains and more organized around rituals that are in line with those of large institutions (Meyer & Rowan, 1977, pp. 44-46).

3.4.1.1.2. Mimetic isomorphism

Institutional isomorphism can also be mimetic. This can occur when organizations for different reasons face uncertainty (DiMaggio & Powell, 1983, p. 70). Uncertainty can, for example, be related to difficulty when using a certain technology or ambiguous goals in the
organization (Eriksson-Zetterquist, 2009, p. 80). The uncertainty contributes to organizations imitating other relevant organizations which they sense to be more legitimate and successful (DiMaggio & Powell, 1983, p. 70).

3.4.1.3. Normative isomorphism

The normative isomorphism is mainly based on professionalization (DiMaggio & Powell, 1983, p. 70). Normative forces related to the profession and education influence what is considered the right way of doing things. Professionalism in these circumstances involves members of a certain profession and who aim at defining methods and conditions that are valid for their work (Eriksson-Zetterquist, 2009, pp. 80-81).

3.4.1.2. Legitimacy

A central concept in the institutional theory is legitimacy (Deephouse & Suchman, 1995, p.49). This is a central element in the new institutional theory (Eriksson-Zetterquist, 2009, p. 103). There have been many definitions of legitimacy over time (Suchman, 1995, p. 573). In his article from 1995, Suchman gives legitimacy a broader definition: “Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, pp. 573-574). An organization shows that it is operating in agreement with a collectively accepted purpose and in a proper manner by establishing a formal structure that is in line with “myths” in the institutional environment. This will protect the organization from being questioned for its conduct, and the organization becomes legitimate. It is further claimed that an organization that possesses legitimation increases its chance for survival (Meyer & Rowan, 1977, pp. 49-50).
4. Empirical findings

In this chapter we present our empirical findings that we have collected from both interviews and documents. First, some important dates and statements of the debate are presented. Thereafter, the empirical findings are presented as three main areas. The first area regards arguments for and against the HCA’s use of progressive depreciation method on buildings. We have identified four concepts behind the arguments which we perceive, have central importance in the debate and which we henceforth expand on. The concepts are: deterioration, the equality principle, the purpose of depreciation and the external fund. Other arguments are also discussed under the main area of arguments. The second area considers consequences of different depreciation methods and the third area treats the norm setters’ and practitioners’ attitudes towards each other. Each area is divided into two parts where one is representing the norm setters and one is representing the practitioners.

4.1. Important dates and statements of the debate

The interviews were conducted during the eventful time when conditions altered as time progressed. The exact dates and information on the respondents of the interviews can be found in the methodology chapter. Below we survey important and relevant events that have taken place since the debate escalated.

In the beginning of 2014, the Swedish newspaper Svenska Dagbladet shed light on the debate article published by FAR’s policy group of accounting in October 2013. This was a start of the large-scale debate covered by the media. In February 2014, representatives from HSB, Riksbryggen, Bostadsrätterna and SBC contacted BFN to discuss the topic of depreciation in HCAs, and BFN stated that they would meet the housing cooperative organizations and FAR (BFN, 2014a). In conjunction with the attention in media, FAR (2014) published a press release with the suggestion to exclude HCAs from the requirement to follow K2/K3 until BFN has clarified which accounting method is more suitable.

In a statement published on their website on March 21, 2014, BFN states that neither previous nor present norms from BFN provide support for the perception that progressive depreciation is the general method that should be used for depreciation on buildings in HCAs. BFN further decided to let the chancellery develop a ground for BFN’s position in the matter that will be presented on April 28, 2014 (BFN, 2014b). In the statement posted on BFN’s website on April 28, 2014, the message is very clear, and their standpoint on the matter regarding progressive depreciation on buildings is that it is not an applicable depreciation method. Progressive depreciation is thereby prohibited with immediate effect. Hence, the board has decided to explicate the K2 regulations (BFN, 2014c). On the same day as BFN posted their final statement, representatives from Bostadsrätterna, HSB, Riksbryggen and SBC presented a debate article on Bostadsrätterna’s website. In the article it is stated that the new interpretation of the regulations lacks the analysis of consequences and that it has no distinct support in the law. They also list the negative consequences that might occur if the progressive depreciation were to be forbidden and provide a suggestion for BFN for the actions they are willing to take and a request to develop a more suited regulatory framework for HCAs (Blomqvist, Lago, Linde & Knight, 2014).
4.2. Arguments of the debate

It is clear that many HCAs use the progressive method of depreciation. We have asked the practitioners why the progressive method is the best option for them. We also have collected the answers to the same question from newspaper articles and discussion papers. Further on, we have asked questions and collected answers from the norm setters regarding their arguments for not advocating the progressive method. In the discussion of progressive depreciation on buildings, the question of deterioration of the building becomes central. It also becomes relevant to discuss the compliance with the equality principle that shall be followed by HCAs as well as to investigate whether or not perceptions of what depreciation is supposed to reflect differ between norm setters and practitioners. Finally, we regard the impact of the external fund which correlates with depreciation and which is representative for HCAs.

4.2.1. The norm setters’ arguments of the debate

According to Ranta, legal counsel at BFN, the progressive method of depreciation has not had sufficient support by the law, but has nevertheless been applied. She further points out that it is auditors themselves, that is FAR, who now have changed the interpretation concerning whether or not progressive depreciation can be considered to be in line with the Swedish GAAP. Thus, it is not BFN itself that now changes the norm (Hellekant, 2014f). Davidsson at BoRevision claims that FAR has encouraged progressive depreciation without any legal support. He also states that progressive depreciation has been abused in HCAs in order to shift depreciation into the future (Hellekant, 2014a). Drefeldt, member of BFN, is an authorized auditor and a member of FAR’s policy group of accounting, explains that the formulation has not been changed in conjunction with the new K-regulations. It has been stated all along, and BFN has been clear on the fact, that one shall choose the method of depreciation that best reflects how the economic benefits of the asset are used. She points out that there have never been motives for applying the progressive depreciation method on buildings (Drefeldt).

According to Arnell, accounting specialist and chairman of FAR’s policy group of accounting, it is not desirable to forbid progressive depreciation as a method since laws and norms should be principle-based. Although he believes that it is of importance that HCAs, accounting consultants and auditors are provided with proper guidance on when and how the progressive method can be applied (Lennartsson, 2014a). Drefeldt explains that in the 1970’s and 1980’s, when the inflation was high, inflation influenced accounting in Sweden. The inflation factor enhanced the incentives for using progressive depreciation. However, the accounting field has developed a lot since that time, and today Swedish accounting is free from the inflation factor. Drefeldt further explains that there was a time before ÅRL was implemented, when some companies did not depreciate their buildings at all, alternatively to a residual value corresponding to the assessed value. This can be compared to some sort of fair value accounting, which was part of the accounting theory that no longer is applied. She further states that it takes time for practice to adapt to the accounting norms, and that norms and practice do not always correspond.
4.2.1. Deterioration

On the question if the progressive method of depreciation can be considered to correspond to the deterioration of buildings, Drefeldt is of the firm opinion that this is not the case. If the progressive method were motivated from the deterioration perspective, the deterioration of a building would need to be greater in the future than today. “Shall one walk on every sixth step?” Drefeldt questions and points out that such an assumption is not realistic. She exemplifies that the progressive depreciation method can be used by a nuclear plant that is not running in the beginning. In this way progressive depreciation is similar to the unit of production method of depreciation, which entails that the more that is produced, the more is depreciated. Drefeldt states that those who motivate the use of progressive depreciation by the deterioration of the building, by saying that the value remains intact in the beginning of the asset’s life, confound the different concepts of value. She refers to ÅRL, which states that accounting shall not reflect fair value. It is clear that Drefeldt is somewhat skeptical towards the underlying motives by the ones designing the economic plans for the HCA’s buildings, that is the construction companies. “Those who sell the building naturally want to receive as much money as possible and in order to achieve that they must lower the annual fee”. She is further critical to excessively low depreciation charges, of 0.1% for example, which she refers to as absurd and which simply means pushing forward the costs (Drefeldt). FAR does not completely dismiss the application of progressive depreciation in some cases if it can be justified through the basic principle in K3, which states that depreciation shall “reflect the anticipated use of the asset’s future economic benefits”. However, FAR is of the determined opinion that this cannot be applied on buildings (FAR’s policy group, 2013).

4.2.1.2. The equality principle

On the question whether or not a violation against the equality principle can be overlooked, Drefeldt states that the equality principle has never been subordinated to any other principle. She explains that by using the progressive depreciation method, HCAs postpone the costs to the future, without being able to give any valid arguments for this. As a shareholder of the economic association, that is the HCA, one shall cover the expenses that appear in the future, and one therefore has to take future expenses into account in the economic plans of today. This is due to the fact that one cannot calculate constant cash flows for a building. As can be seen in the graph below, constructed based Drefeldt’s statement, the outgoing cash flow is not evenly distributed, but come in bulk payments, where the main part of the expenses arises after thirty to sixty years (Drefeldt).
According to Malmqvist, chairman of the world committee within the Swedish Finance Analyst’s Association, progressive depreciation can be motivated, but only if the concerned asset has got either constant or no maintenance costs. In those cases the sum of depreciation costs and cost of capital will be constant assuming that the amortization of the loan is paid in correspondence to the depreciation. This situation implies that the cost of capital in combination with the progressive depreciation will lead to a constant cost (Malmqvist, 2014).

4.2.1.3. **The purpose of depreciation**

Drefeldt gives an example of three different buildings, one owned by the municipality of Gothenburg, one owned by a private real estate firm and one owned by an HCA. She thereafter explains that she cannot understand why the perception of depreciation shall differ between these three. She continues and explains what depreciation is supposed to reflect in the HCA, namely the acquisition’s reacquisition to that price. According to FAR’s policy group of accounting (2013) the purpose of depreciation is to reflect the actual use of the asset’s future economic benefits. In order to use the progressive depreciation one must prove that this reflects the use of the asset. Thereby one must make it probable that the use of the economic benefits of the building increases over the utilization period.

4.2.1.4. **The external fund**

According to multiples from BoRevision, the fees paid by the members shall be large enough to cover operating- and interest costs and still leave a surplus of between 100 and 250 SEK per square meter. This shall cover for depreciation and the external fund, that is the consumption of the building. The construction companies have, according to BoRevision, decreased this surplus to less than 80 SEK, often as little as 20 SEK, and sometimes zero at rearrangements. This behavior probably derives from the financial crisis of 2008, and aimed to lower the monthly fee to make the properties easier to sell (Hellekant, 2014a).
In a commentary by Nordlund and Drefeldt (2013) on FAR’s debate article “Progressiva avskrivningar på byggnader – är det tillåtet vid tillämpning av K2/K3?” it is stated that depreciation shall reflect the deterioration of the building. Alongside with depreciation it can be preferable to have a provision to an external fund in an HCA. However the provision to an external fund cannot replace depreciation, as depreciation always is to be done according to the law and Swedish GAAP. Nordlund and Drefeldt (2013) further state that a provision to an external fund can compensate for the inflation, since depreciation, after a while, no longer provides a true and fair view of the expenses needed to maintain the condition of the property. To take the inflation into account, the association can progressively increase the provision to the external fund (Nordlund & Drefeldt, 2013).

4.2.2. The practitioners’ arguments of the debate

Hörnesten, CFO at HSB, explains that progressive depreciation is used in recently constructed houses, and also in case of rearrangements. The argument for using the progressive method for these new HCAs is simply that the straight-line method would not work, because it would imply that the price of living would become too expensive for most people to afford (Hörnesten). The economic plan of the HCA, combined with the fact that a building has a very long life-span, makes the progressive method suitable to use, according to Öster, housing cooperative consultant at SBC. Hörnesten agrees with this statement as he states that another reason for applying progressive depreciation is that buildings have an insignificant technical development as well as a long life-span.

Hörnesten points out that at the time when depreciation of buildings often was of the same amount as the amortization of the association’s loan, the liquidity was satisfying. Hörnesten further states that the amortization principle was an excellent method when it was applied, although he does not imply that it should be reintroduced.

According to Hörnesten the housing cooperative organizations could as well shut down their operations regarding new production if the straight-line method is to be applied. This is due to the fact that the amount needed to be taken out from the members in order to cover the depreciation expense would simply be too high. Hörnesten also reflects over the fact that in the past, the inflation has been working for their benefit, although this is a factor not to be accounted for. He further states that if the inflation would be zero for the next fifty years, then it might get tough, however they still have an appropriate maintenance plan and provide money to the maintenance fund. Practically speaking it comes down to a question of cost in the new production; that is clear and is not something that can be ignored. Hörnesten further states that it is important to find a solution as satisfying as possible; otherwise different administrators will find their own solutions.

Hörnesten is of the opinion that it would be irrational to use the straight-line depreciation that would require a higher annual fee from members, because the cash flow received from the members would just be piled up. This is the case when the down payments paid by the members of the association are equivalent to the entire production and it thereby are no loans in the association (Hörnesten). Lindböck, head of public relations at Bostadsrätterna, likewise points out that there is no use in accumulating a large cash flow. He also states that if the
members already have paid for the building, they are less willing to pay more in terms of depreciation and provisions.

According to Sandin, who is an expert of financial statements and advisor to HCAs, it is important for HCAs to let the monthly fee cover for the progressive depreciation already from the start. This is due to the fact that the association most probably will need to take loans for renovation in the future, and in order to do that one must have correct depreciation charges to enable sufficient amortizations (Hellekant, 2014b).

4.2.2.1. Deterioration

According to Hörnesten the question of deterioration is a contributing motive for using progressive depreciation. He states that when a building gets older it deteriorates to a larger extent than in the beginning of its life-span. During the first twenty to forty years the building practically remains intact, but after that the building starts to demolish and then it can escalate rather fast. Hörnesten further points out that HSB apply the straight-line method of depreciation on many of their older properties, where it is not a problem to have a higher depreciation percentage. It is mostly at newly production where the progressive depreciation is preferable. Öster concurs and believes that the deterioration is part of the arguments for using progressive depreciation. According to Lilja, head of public relations at Riksbyggen, there is no reason to do an interpretation that would entail that progressive depreciation on buildings is not permitted. He states that Riksbygen will continue on with the progressive method for depreciation, because they see it as the correct way of doing it. He further explains his opinion by stating that the value of a building is relatively stable the first decades, when no comprehensive renovations are made, and he therefore claims that it is reasonable that the depreciation charge also comes in the future. He also claims that an interpretation in accordance with that of FAR, will complicate the situation with building new buildings, since the housing costs will increase unnecessarily (TT, 2014).

4.2.2.2. The equality principle

According to Öster, it is possible to comply with the equality principle, that is to cover for the own generation, even with the progressive depreciation method. Depreciation and the provision to the external fund are in a way two sides of the same coin and both have the purpose to cover for future maintenance. Hence, the equality principle can be taken into account, using the progressive method combined with larger provision to the external fund (Öster, 2014).

The progressive depreciation method can be criticized due to its possible contradiction to the equality principle, but both Hörnesten and Öster disclaim this statement and state that the progressive depreciation along with a provision to a maintenance fund do not imply pushing forward the costs on to the next generation. Öster states that it should be a zero sum game if the external fund is used actively, because it implies that the present generation covers for its part moneywise. Some associations only provide the minimum requirement of 0,3 % of the assessed value to the external fund, and if so one should not have a progressive plan, but rather apply a higher straight-line depreciation (Öster). Hörnesten further is of the opinion that
the depreciable amount should not be a hundred percent of the total production cost, since it consists of different parts where one part is covered by the external fund and one part is covered by the members themselves through the internal maintenance.

Sandin has claimed for years that the HCAs’ calculations have been rigged in order to maximize the selling price per square meter. He gives his own association where he lives as an illustrative example and states that according to Skanska’s progressive plan the depreciation expense only affect the monthly fee with 200 SEK during the first years, while after seventy years the effect is 10 000 SEK. Sandin further claims that the construction companies’ profits have been on expense of the next generation. He further states that companies like Skanska would never accept their own methods if the intention would be to acquire the property for themselves. Skanska, for example, applies the traditional straight-line method on their office buildings (Hellekant, 2014b). On the question whether future generations of apartment owners will experience more expensive fees due to the increasing depreciation expense Hörensten replies that the answer is yes, if the price of the apartment will be the same. In the best of worlds the price of the apartment reflects the cost, which means that the price shall be a function of the fee. A high fee hence implies a low price, and vice versa (Hörnesten).

4.2.2.3. The purpose of depreciation

Hörnesten states that depreciation is not something very remarkable. It shall reflect the life-span of the building, and he points out that he has no deviant opinion on the question of what depreciation is supposed to reflect. According to Lindbäck, depreciation should reflect nothing else but what is stated in ÅRL. Öster believes that it is a combination of the perception of depreciation and the peculiar operations of the HCAs that affect the choice of depreciation method. She explains that there are many viewpoints on depreciation and there are many different opinions on the matter. “There are so many methods that one can apply without actually executing it incorrectly” (Öster). She further explains that there is no actual purpose with depreciation in HCAs. “Everyone questions and finds it strange that since the value increases; why should the building be depreciated?” (Öster). She also believes that in companies there are tax incentives, which might imply that a higher depreciation rate is preferable. These incentives however do not exist in an HCA in the same manner. In an HCA there are hence not the same incentives to limit the life-span of the buildings, which is common in other companies. If an HCA depreciate large amounts and the annual depreciation expense is amortized, the members can be credited with large amounts of amortizations (Öster).

4.2.2.4. The external fund

Hörnesten states that a building of an HCA is more complex than a building owned by a real estate firm. In the HCA there is an external fund with the same purpose as that of depreciation, that is to maintain the original condition of the building. Using the straight-line method in the HCA would imply much higher costs, and one would hence have to remove that sum from the external fund and that is not a preferable option, since the external fund is easier and more visible to use when explaining to the members why they have to pay their fee
(Hörnesten). He is of the opinion that the depreciation to a large extent is connected to the external fund, and he does not believe that the two concepts should be separated. “The external fund is the foundation; it is stated in our statutes that one shall have an external fund” (Hörnesten). Hörnesten further points out that the function of the external fund is less complicated to explain to the members of the association than the function of depreciation. He therefore requests a consolidation of the depreciation and the provision to external fund (Hörnesten).

Öster states that the usual aim within SBC is that the HCAs shall have a surplus that covers the provision to the external fund. Using the external fund actively is preferable, and will imply that the fluctuations in the retained earnings can be avoided. This can be explained by a simple example: Maintenance of 500’ SEK will have a negative impact on the net income with -500’ SEK. Net income of -500’ SEK, together with the utilization of the external fund of 500’ SEK, implies retained earnings of zero. Without the external fund, the retained earnings will hence vary more. Using the external fund actively will also imply that the low depreciation and the provision will be “matched”. Öster further states that due to the fact that the usage of the external fund is not regulated, it would be preferable that the norm setters find an alternative solution more suited for HCAs. “In the present regulations, it is not taken into account that depreciation in combination with provision to the external fund means that the cost is charged twice, since both of these have the same purpose” (Öster). It would further be preferable and facilitating to be able to use progressive depreciation combined with working actively with the external fund, according to Öster.

4.3. Consequences of different depreciation methods

In this section we present opinions regarding what consequences that different depreciation methods might imply. The focus lies on consequences that might occur if a change from the progressive depreciation method to the straight-line method is realized.

4.3.1. The norm setters’ viewpoint of the consequences of different depreciation methods

Nordlund, member of FAR’s policy group of accounting, and Lundström, professor of properties at Kungliga tekniska högskolan (KTH), state that if the future brings no income increases and no inflation, and the progressive method of depreciation continues to be in use, future generations will be suffering and burdened disproportionately (Hellekant, 2014c). Davidsson states that when the lack of sufficient depreciation and provision to the external fund reaches an extent, certain stagnations will occur. He notes that the housing prices definitely have upper limits and that there is a housing bubble (Hellekant, 2014a). According to Pärhlhem, administrative director at BFN, FAR has perceived the law to be unclear. On April 28, 2014 BFN therefore has not changed their minds but rather clarified that progressive depreciation on buildings is not allowed. He further states that depreciation in HCAs now will have a clearer effect on the result, and that it will be easier for potential buyers to evaluate whether the housing cooperative is sold at a justified price (Hellekant, 2014e).
4.3.2. The practitioners’ viewpoint of the consequences of different depreciation methods

Lindbäck believes that HCAs with good liquidity will not raise the members’ fees in a situation where the associations are forced to change to the straight-line method. Hörnesten explains that he, as an administrator of HCAs, understands that the straight-line depreciation, and hence a higher fee, would not work in practice. “The associations built the last ten to fifteen years will not raise their annual fees by 10-30% simply because the rules are changed” (Hörnesten).

It is apparent that an exclusion of the progressive method of depreciation on buildings will imply a higher cost, and since the aim is that the annual fee shall cover depreciation, it might lead up to an increased level of the fee (Öster). However, she states that a higher fee allows an HCA to amortize more and thereby lower the loan cost, which enables a decrease of the fee in that way instead. Öster further points out that an equity deficit in the HCA does not imply that there is a requirement for liquidation. “In the world of HCAs one needs to consider the liquidity, because it is the liquidity that shows which HCAs that actually are prosperous” (Öster). The fact that there are many different types of associations, depending on both how long they have existed and where in the country they are located, entails that the balance sheets among them differ to a large extent. This is due to that some of the associations have a very high assessed value of the building and by depreciating 1 %, the sum depreciated is huge, while some associations that perhaps is not rearranged in the same manner or a very old association would not notice a 1 % depreciation charge to the same extent (Öster).

Hörnesten states that the straight-line depreciation will imply a negative result in the income statement, assuming the annual fee will not be raised, and which will accumulate over the years. He further states that the results often are the main focus of stakeholders, and a negative result would hence give a negative impression for the stakeholders and there amongst the potential buyers. The situation will therefore need to be explained in the annual reports, and it will be more complicated to communicate to stakeholders that the negative result “can be ignored”, since the HCA actually has no economic difficulties. It is not a preferable alternative that all newly produced should have a negative result. “Accounting and annual reports are supposed to be informative, but if the accounting does not fulfill its purpose, then what is the meaning of it?” (Hörnesten). On the question whether or not it is a possibility to increase depreciation charge from the beginning by using the straight-line method, and thereby possibly decrease selling prices Öster responded: “Who wants to be responsible of causing the market prices drop?” However, she explains that it if the straight-line method is used instead, it will probably be a time lag before the market catches up and responds to this change. Eventually, if the annual fee is increased, the market prices will probably decrease, and it will cause a lot of people who have bought expensive to lose large amounts of money (Öster).

The housing construction company NCC states that the annual fee paid by members of the HCAs produced by NCC will not need to be adjusted in a situation where the straight-line method is the only alternative. Instead, there will most probably be negative results in the annual reports of the HCAs. NCC further explains that a negative result does not imply that
the HCA will be unable to cover for the operating activity expenses. The most important thing for the HCA is to possess enough liquidity, achieved from provision to the external fund as well as amortization on the original loan, when a repair is required, according to Lundgren, CEO at NCC “Boende”. Skanska, another housing construction company has not made a similar decision and will instead wait until BFN has given their final direction in the matter (Hellekant, 2014d).

Representatives from Bostadsrätterna, HSB, Riksbyggen and SBC have in a debate article listed some of the negative consequences that might occur if progressive depreciation were to be forbidden. The negative consequences accounted for, include that the annual reports will be difficult for the members to comprehend. It further includes the fact that increased costs in the accounting will imply uncertainty which diminishes the market conditions for part of the newly production and that an increased depreciation combined with maintenance funding might lead to that an unnecessary large cash is built up (Blomqvist et al, 2014).

4.4. Attitude towards the norms and practice

In this section we present the norm setters’ and the practitioners’ attitudes towards each other and each other’s viewpoints. We let both parties give their opinion of the opposite side of the debate.

4.4.1. The norm setters’ attitude towards the practice and the practitioners

Drefeldt points out that during the process of developing K2 for economic associations there were opportunities for everyone, and so also for the HCAs, to hand in referral responses regarding their viewpoints and opinions. Hence, it is a little odd that this debate has come to arise, knowing that the HCAs could have started to communicate their opinion earlier.

Arnell states that regardless of which method that is applied, there should be proper disclosures regarding the applied method and the annual depreciation. Arnell further is of the opinion that within the disclosures, there should be an explanation about the connection that lies between the fee charged, the accounted result, the provision to the maintenance fund and the expected future expenses connected to the maintenance plan. He states that the information in the HCA’s annual reports needs to be improved in order to give the stakeholders a clearer perception and to enable an assessment of how the future level of the fee might develop. He further is of the opinion that to change the current practice it is necessary that clear norms are provided (Lennartsson, 2014a). Arnell’s statements are supported by Brännström, who believes that the current debate has brought up many deficiencies in the HCA’s accounting, in addition to the question of depreciation method. Brännström states that the potential buyers of a housing cooperative apartment must be able to estimate the future fee level, and in order to achieve that they need to be provided with proper and relevant information (Lennartsson, 2014b).

4.4.2. The practitioners’ attitude towards the norms and the norm setters

Hörnesten points out that FAR first explained that it is not an option to use progressive depreciation on buildings. Later, FAR changed its mind and proposed to BFN to exclude the
HCAs from K2 and K3, until this issue is solved. He argues that FAR has interpreted the regulations without taking reality, that is the HCA, into account (Hörnesten).

Due to the clear message that BFN (2014b) posted on their website on March 21 2014, explaining that neither present nor previous regulations accept progressive depreciation on buildings as a generally applied method for HCAs, we have asked what impact this statement had on Lindbäck’s viewpoint on how to manage the depreciation situation in HCAs. Lindbäck responds and points out that such a statement does not have much impact on anything. “BFN provides general advices, and hence, such a statement is not definite” (Lindbäck). He continues and states that one shall follow the law, first of all. Bostadsrätterna therefore encourages their associations to “sit still in the boat” and continue on with the progressive method (Lindbäck).

Sandin directs criticism towards FAR, which he believes should have dismissed the appliance of progressive depreciation earlier. He states that the organization has acted cowardly, by alarming too late and further changed its mind by suggesting that HCAs should be excluded from the new regulations until the matter has been clarified (Hellekant, 2014b).

Öster explains that the present situation is somewhat undesirable since her experience is that the regulations are not adapted for the HCAs, but clearly HCAs have to follow them anyway. She further states that the norm setters do not see it from the practitioners’ point of view whatsoever. It is clear to Öster that the newly produced HCAs are dependent of being able to use the progressive depreciation. When clear guidelines of how to manage the situation with depreciation on buildings are presented, the HCAs naturally will have to comply with this. She further notes that SBC is used to recommend the progressive method and that it has not been a subject for discussion until now, because there have not been reasons to question the method. “It can be easy to get stuck in old habits, and that one might continue on applying a method or principle due to that it is the way one always has done” (Öster, 2014).

4.4.2.1. Adapted framework

HSB have met with BFN and FAR to discuss the issue of depreciation in HCAs and Hörnesten believes that BFN is starting to realize that HCAs have different prerequisites in the matter of depreciation. Hörnesten further explains that the aim from the practitioners’ side is to obtain adapted regulations for HCAs so that every HCA will operate in the same manner, without any ambiguity about what is legitimate. Hörnesten explains that the short term goal of HSB is to be able to continue on as before, but to incorporate a written explanation about the accounting principles used in the annual reports. In the long run the aim is to develop a new regulatory framework suited for the HCA, together with FAR and BFN, and that the industry agrees on. The suggestion from HSB is to bring together the external fund with depreciation, so that the two concepts do not live their own lives (Hörnesten). It is clear, when speaking to Lindbäck, that the short- and the long term goals for Bostadsrätterna are the same as the ones stated by Hörnesten.

In the debate article written by representatives from Bostadsrätterna, HSB, Riksbyggen and SBC, it is provided an alternative suggestion that does not imply prohibiting progressive
depreciation on buildings. The suggestion, which also was communicated to BFN, consists of a request to not change the current practice until it is established that the change will lead to an actual improvement. The representatives further offer to provide a “Guidance for complementary disclosures in the annual reports of HCAs concerning depreciation and maintenance funding”, with the aim that it will be introduced in the annual reports for 2014. Finally it is suggested that BFN, FAR and the housing industry together shall start a long-term review of the regulations, where all relevant perspectives in addition to the depreciation regulations are taken into account. One aim is that the annual fee, amortization, loans, deprecation and provisions for maintenance will be correlated to the time of the building’s evaluated life-span (Blomqvist et al, 2014).
5. Discussion

In this chapter we discuss our empirical findings from the perspective of the theoretical framework of the thesis. We proceed from a similar disposition as the empirical findings, bringing out the most relevant topics for our research question. The discussion chapter is divided into the following sections: a discussion regarding why the debate has come to arise, arguments of the debate, consequences of different depreciation methods and attitudes towards norm and practice.

The debate strikes the uncertainty that lies in the question regarding valuations of assets, as well as the great differences between norms and practice. The debate has made it clear that the different parties have different arguments for and against the progressive depreciation method. Some motives behind these differences have been highlighted, while some factors relevant in the discussion of depreciation, are somewhat ignored in the media. It is also apparent that the parties have different interests to tend to and that their viewpoints regarding some aspects of the debate correspond while some diverge.

5.1. Why did the debate arise?

To be able to answer our question why practitioners’ and norm setters’ opinions diverge and hence why the debate came to arise, another relevant question is why the norm setters did not express their opinion earlier. From the empirical findings it becomes clear that both Ranta and Drefeldt, representing the norm side, point out that it is FAR that now has changed its interpretation of the norms, and hence it is not BFN itself that has changed the writing in the norms. We find this interesting, since it is obvious that the writing actually has been modified. Perhaps the message of the written formulation has the same objective as before, but the fact is nevertheless that changes have been made. The previous writing in BFNAR 2001:3 included following text: “progressive depreciation method is possible for fixed assets with a long life-span and an insignificant technical development”, which is not mentioned in the present formulation in K2 and K3. BFNAR 2001:3 also included progressive depreciation as an example of an applicable depreciation method, while in K3 three examples of depreciation methods are mentioned, and progressive depreciation is not one of them. Hence, we perceive from the present formulations in K2 and K3 that a stricter interpretation has to be made. Considering fixed assets, it becomes apparent that the new regulations are principle-based whereas the former ones were rule-based, as there are higher requirements for interpretation in the present regulations which do not provide as thorough descriptions. We believe that FAR’s new interpretation to some extent derives from BFN’s new writing in the accounting standards. Further interesting is that in FAR’s recommendation no 3, which is repealed, there was a specific writing which aimed to enable the possibility to have depreciation on, for example, a housing building to correspond to the amortization of an annuity loan. Since amortizations of an annuity loan per se are following a progressive pattern, we find it strange that Drefeldt states that there have never been motives for applying the progressive depreciation on buildings. We argue that if there have never been motives for the progressive depreciation method, and no current circumstances in the particular context actually have changed, the norms should have been changed earlier. The K-regulations come with many
changes and we believe that this has made it easier to discuss the problem with progressive depreciation, since there were already changes to implement.

5.1.1. Lack of clarity and credibility

We believe that perhaps the accounting profession went too far in trying to appeal to practitioners. According to Artsberg (2005), the accounting profession often starts with considering accounting theory and thereafter considers what is possible and desirable to do in practice. In this particular case, FAR perhaps considered the accounting theory and norms presented by BFN, but due to the lack of clarity and definition, the situation ended up in a grey area. We conclude that the fact that the progressive depreciation method was not forbidden, combined with certain former existing circumstances, such as a higher inflation factor that enhanced the motives, contributed to auditors being able to approve the method. As things have changed and with the current conditions regarding low inflation and the overvalued housing market it has become much more difficult to argue for the progressive method.

Knowing that the progressive method has been widely used, we believe that the fact that the norm setters state that there have never been motives for the progressive method of depreciation on buildings, diminishes the credibility of the norm side. The statement leaves a confusion, and a question of why BFN and FAR did not act at an earlier stage. We believe that the message of what is considered to be valid should have been communicated clearer. We further argue that it is of importance to be clear from an early stage, not least because of what has been noted by Artsberg, Öster and Drefeldt, that we know that an accounting method that has been used for a while and has become a habit is difficult to change in practice. We believe that the lack of clarity in the communication from the norm side and in the written regulations has contributed to the lack of credibility and this has further contributed to the intensity of the debate. If the method had not been so inculcated, and the changed opinion of FAR and BFN would not have come so sudden, the resistance from the practitioners might have been reduced. Knowing that it is difficult to change practice that has become a habit, we believe that Arnell’s (Lennartsson, 2014a) statement that it takes clarity from norm setters to change practice is vital. We argue that the fact that progressive depreciation is a habit in HCAs makes it likely that the HCAs would aim to defend and maintain the method. If there is unclearness in the written regulations, HCAs might try to make the method fit into the norms. We therefore believe that the lack of clarity in norms partly explains why the practitioners in this debate defend the progressive method to such an extent.

5.1.2. Legitimacy of the norm setters

We believe that the fact that Lindbäck points out that the statement from BFN on their website from March 21 is not needed to be taken into account, could be an indicator that BFN perhaps has less impact than one could wish. Even though the statement from March 21 was not the definite one, it clearly implied that BFN was negative about the use of progressive depreciation on buildings. The profession, which influences the practitioners according to normative isomorphism (DiMaggio & Powell), in this matter is hence not very powerful. Lindbäck’s perception arises an interesting question. The fact is that ÅRL mentions that
Swedish GAAP shall be followed in the establishing of annual reports. Further BFN is responsible for developing Swedish GAAP, which indirectly makes it a law (PricewaterhouseCoopers, 2012). The question is whether or not the general statement from BFN should be considered legitimate, or if it is only the written regulations that counts. Where is the line between what has to be followed and what not? We argue that this must be clearer. We further believe that the legitimacy becomes higher among the practitioners, when they all follow the same practice, that is, the progressive method. We experience that the legitimacy, which is described by Suchman (1995), is strong among the practitioners, because the method seems to have been collectively accepted among them. The HCAs have therefore not been questioned for their conduct. We believe that this somewhat diminishes the role of FAR and BFN in this matter. The fact that the method has not been questioned from the norm setters, combined with the fact that the method has been legitimate within the associations, has enabled the method to be applied. In addition, it seems that neither society as a whole, nor the group of potential buyers of housing cooperatives or present members, have questioned the method. We believe that this situation also has enabled the method to be considered legitimate, as is discussed later on, connected to the coercive isomorphism.

5.2. The arguments of the debate

5.2.1. Inflation

We understand that the inflation factor is something that often is referred to when speaking of progressive depreciation. It is a fact that the annual depreciation in real terms is not the same in fifty years as it is today, and that a high inflation enhances the motives for applying the progressive depreciation. This is discussed by Sweeney (1933), who stated that the straight-line depreciation method ignores the difference in value of the currency and that during times with high inflation the straight-line method was not useful when maintaining the substance of capital. However, we note that Swedish accounting today cannot contain the inflation factor, which is also confirmed by Drefeldt. Hörnesten stated that if the inflation were to be zero for the next fifty years or so it might get difficult to use the progressive depreciation method. We believe that it is irrelevant to incorporate the inflation factor as an argument, as it is not part of the purpose of depreciation in the regulations or in the law. Furthermore, the inflation in Sweden is excessively low right now and has been for quite some time, which would make the inflation motive useless anyway. We believe that it can be wise to progressively increase provision to the external fund in order to capture the price increases for maintenance and repairs that occur, as Drefeldt and Nordlund points out. Thus, even though inflation accounting is not to be applied according to the norms it is still a key factor to the practitioners.

5.2.2. Amortization

We note that Hörnesten’s opinion that it was a preferable solution to amortize with the same amount as the depreciation is not in accordance with Swedish GAAP. This is also in line with what Stark (1994) stated. This is clear since depreciation ought to be motivated by accounting and not by other circumstances of the HCAs’ operations. We believe that this indicates that
practitioners do not have the aim to reach the best way of accounting, but the best practical solution based on their operations. Furthermore, it has to be accounting rules and principles that affect the depreciation charge and not amortizations, which merely reflect how the association is funded.

5.2.3. Deterioration

From our empirical findings we noticed that the deterioration factor is highlighted in the debate. According to Fredman and White (1973), who advocate the annuity method of depreciating buildings, a building deteriorates less in the beginning of the building’s life-span and that it therefore is more logical to have increasing depreciation charges over time. This is also stated by Lilja (TT, 2014), however, Drefeldt is of a different opinion as she states that deterioration is distributed equally over the life-span of the building. It can be concluded that there is no definite answer to the question, and that different viewpoints exist. However, with the annuity method one presumes constant cash flows in calculations, and this is, according to Drefeldt, not the case with a building of an HCA as can be shown in Figure 4.2.1.2 in the empirical findings. Malmqvist (2014) also states that there can be motives to apply the progressive depreciation method, but only if the asset has got either constant or no maintenance costs. We note that the cash flow going into the HCA, that is fees, can be considered to be fairly constant with an exception of some sort of indexation, but the outgoing cash flow in the forms of repairs and maintenance is definitely not constant. On this point we believe that the annuity method fails. Furthermore, Fredman and White (1973) believe that it is the conservatism principle that affects US accountants to take offense to the method. ÅRL is also inclined to conservatism (ÅRL SFS 1995:1554 2:4), which we believe is a contributing factor to why theorists advocate the straight-line method instead of the progressive method of depreciation that implies pushing forward costs into the uncertain future.

5.2.4. The equality principle

It is clear that norm setters and practitioners have different basic viewpoints when it comes to the equality principle. The norm side points out that the progressive method shifts costs onto future generations, while the practitioners involve the external fund and hence state that there are no costs shifted onto the future. We believe that it is difficult to reach a solution that will satisfy both sides of the debate, as long as the basic assumptions diverge to such an extent. Thus, we argue that it would be facilitating to have a debate regarding what depreciation actually is and what it is supposed to reflect. Further, we note that there is an important and central question that has to be discussed and clarified by HCAs to solve parts of the issues highlighted in the debate and in this thesis. The question regards who should pay for what in the HCA, that is, should a present member pay a thirtieth of the cost for the maintenance work that will be done in thirty years, or shall that cost rather solely affect the members present in thirty years from now? This issue affects the part of the debate that regards the external fund, and it is not clarified on whom the responsibility of reparation and maintenance costs lie on, which makes it difficult to determine the level of the provision to the external fund. However, this issue is not connected to depreciation, but we believe that there is need for clarifications and solutions on other areas as well in HCAs to be able to come to satisfying solutions.
regarding depreciation. Penetrating the debate has given us insight in HCAs and we note that the depreciation issue is connected to other issues and ambiguities, such as the meaning of the equality principle, and hence, is not likely to be solved without solving other problems.

It seems that a central element is to set a correct and fair level of the fee that does not imply pushing forward costs, and practitioners appear to pay more attention to this than to accounting rules and principles regarding depreciation. According to Lundén (2011, p. 36), it is as negative to have too low a fee as too high a fee, and at the same time one needs to respect the equality principle. It appears to be a delicate balance deciding the level of the fee and depending on the argumentation the “correct” level might vary. Artsberg (2005, p. 19) states that argumentation plays an important role for accounting people working with normative statements. We do not consider the practitioners that we have interviewed to have fully support in their argumentation when defending their chosen methods. They claim that it does not imply pushing forward costs onto the future generation if one works actively with the external fund. However the regulations do not consider the external fund, which leaves no guarantees that it is managed properly. It is stated that a minimum of 0,3 % of the assessed value needs to be provided to the external fund, but not how much is needed when combining it with the progressive depreciation method. We therefore conclude that there is a risk that this approach can lead to an abuse of the system with the aim to minimize costs.

5.2.5. The purpose of depreciation

As mentioned, the deterioration factor is the main focus of the debate. We argue that some important factors, relevant in the discussion on what depreciation should reflect to be in line with Swedish GAAP, are excluded, or given disproportionately little space in the debate. We would like to emphasize that it is not merely deterioration that is the purpose of depreciation, which also can be understood from Smith (2006) and Edenhammar, Norberg and Thorell (2013). Hence, we believe that it is of importance to underline that for the debate to generate any solutions it is crucial that all aspects regarding the aim of depreciation are included. Something that highly affects the depreciation level is the chosen life-span of the building, which has not been given much attention in media and the debate. Another important factor that we perceive to be neglected in the debate is that the purpose of depreciation is also that depreciation should be matched with the incomes generated by the asset. Gröjer (2002) states that considering the matching principle when applying the progressive depreciation, one must assume that the asset’s effectiveness and thereby the income increase over time. Looking at the purpose of depreciation, it becomes apparent that progressive depreciation is not applicable, as long as fees, paid by the members of the HCA, do not follow the same progressive pattern.

It is clear that the perception of what depreciation is supposed to reflect is not the basic issue of the debate. Even though some of the practitioners represented in the empirical findings do motivate the progressive method of depreciation from the elements in ÅRL, such as deterioration, it is clear that many of the arguments derive from the conditions of the HCAs, such as the external fund. We note that the reasons why HCAs want to apply the progressive depreciation in some measure have been motivated by the deterioration of the building, since
as Lilja (TT, 2014) stated, the building deteriorates less in the beginning. However, we believe that a possible underlying motive is that there is an aim to minimize costs to be able to minimize the fee and thereby sell at a higher price. This is also confirmed by Hörnesten, who stated that it undoubtedly is a matter of cost, and that it simply would be too expensive for the members of the association if applying the straight-line method. The practitioners in our empirical material claim that they do not have a deviant opinion regarding the purpose of depreciation. However, we note that both Öster and Hörnesten state that the purpose of depreciation is different in an HCA compared to in “a normal case scenario”. This is due to the maintenance fund which provides a similar cost that aims to cover deterioration, but also due to the lack of tax incentives in an HCA. These statements are contradicitive, and we believe that it indicates that the purpose of depreciation is not their main priority. We strongly believe that depreciation is what it is, merely depreciation, and that it must not be mixed up with a provision to an external fund or the possibility of low fees. Hence, the method of depreciation must be motivated with base in the accounting norms and regulations to be in line with Swedish GAAP, and not from other circumstances. The difficulties with high costs, that are a fact in recently constructed HCAs, is a separate question and cannot be used as a reason to push the concept and the purpose of depreciation. Stark (1994) points out that it was stated by HSB in 1985 that the purpose of depreciation was “to determine an annual fee that does not provide liquidity problems”. It appears as if this mindset lingers on yet today, as it seems that the main question is how the fee will be affected by the different depreciation methods.

We further observe a lack of consistency on the practitioners’ side due to the fact that the progressive method is mainly used in recently constructed HCAs, and not in the older ones. We consider it odd to motivate the progressive method of depreciation from the perspective of deterioration or anything that regards the building and how it is best reflected in annual reports when this approach is not consistently applied. A building is a building, and the arguments of deterioration and the usage of the external fund fail to convince us, since they do not include older buildings.

5.2.5.1. Explaining the purpose of depreciation to members

It seems that our interviews contribute to enhancing what Smith (2006) states about the different viewpoints between laymen and theorists. The board of the HCA, which is responsible for the accounting, consists of voluntarily engaged members (Lundén, 2011). Hence we note that there are no requirements of economic education among the members of the board. If we therefore consider the HCA members as laymen, we can do a comparison to the statement of Smith (2006). From our interview with Öster we understand that, according to her, the general perception among members is that the market value of a building increases over time, and therefore it is considered unmotivated to depreciate. In our empirical findings the practitioners point out the problem of explaining the purpose of depreciation to the members. We believe that the practitioners have an aim to satisfy the members and that it is difficult, since the members and the board consist of laymen and hence have different viewpoints of the annual report. FAR’s accounting statement RedU 12 aimed to clarify that depreciation cannot be omitted due to the fact that the book value is lower than the fair value.
We perceive that this statement, which specifically mentioned that it also was applicable for HCAs, was aimed towards HCAs in particular. We believe that depreciation is a complicated concept, and thoughts regarding a lasting value seem to appear frequently. It is therefore of importance to realize the actual purpose of depreciation and that the depreciation is not affected by a lasting or even increasing value of the asset.

Hörnesten also mentions that it is preferable that depreciation is easy to explain for the members, and that he therefore advocates the external fund, which according to him is easier to explain. We believe that it should not be that difficult to explain the depreciation, if one clarifies its meaning and what it is supposed to cover.

5.2.6. The external fund

From our empirical findings we understand that the focus of the discussion from the practitioners’ side, to a large extent, is on the importance of the external fund. It is clear that the practitioners motivate the use of the progressive method with the fact that it is complemented with the external fund. Besides the fact that the depreciation method must not be dependent on the external fund, or anything else but on factors motivated in the law for that matter, there is one more thing that can be criticized in this argument. A relevant question is whether the HCAs do not only have a deficient depreciation, but also an underprovided external fund. We believe that the problem with accounting in HCAs is that the HCAs to such an extent strive to keep the level of the fee down, by minimizing depreciation and provision to the external fund. Hence, if the progressive depreciation method is applied, while having a low provision that can be arbitrarily decided, it will result in an instable situation.

Drefeldt and Nordlund (2014) clarify in their commentary on the debate article written by FAR’s policy group of accounting that a provision to an external fund cannot act as a substitute for depreciation. Depreciation is to be done according to laws and Swedish GAAP. We believe that the practitioners fail to realize this, and that they only act out of what is most simple and practical for them in their operations. They proceed from their operations and lose the actual core, which is accounting that provides the three basic qualities found in ÅRL, that is Swedish GAAP, perspicuity and a true and fair view (PricewaterhouseCoopers, 2012).

5.3. Consequences of depreciation methods

To bring depth to the discussion we believe that it is important to analyze consequences that might occur when changing from progressive depreciation to straight-line depreciation. From our empirical findings we got the impression that practitioners motivate progressive depreciation based on the fact that straight-line depreciation would entail too many negative consequences partly for themselves but mainly for the members of the association. One of the arguments emphasized by Hörnesten and Lindbäck, which could be placed among the negative consequences of straight-line depreciation, is the one regarding the higher cash flows that would derive from the increased fees. A higher level of depreciation would imply that higher costs have to be covered for, and a natural solution would be to increase the fees. The higher cash flow, indirectly generated by a change in depreciation method, is considered pointless. We note that this is not an argument derived from accounting rules, and that this
only affects associations that have not got loans to amortize. The relevance and width of this problem is questionable. We argue that it is neither very reassuring nor adequate to motivate a chosen method of accounting, and in this particular case depreciation, by the fact that it otherwise will be an impossible situation. We acknowledge that there is an imminent risk that the negative consequences presented by Blomqvist et al (2014) will be fulfilled. However, the presented consequences are not related to accounting, and this enhances our opinion that the practitioners’ arguments are irrelevant as they are not based on accounting.

A definite consequence that associations will experience if changing from progressive to straight-line depreciation is a larger impact on the income statement (Lundén, 2011). The approach towards this consequence, on the other hand, might vary as associations may choose to either increase the fees to cover the increased depreciation or to make a loss.

5.3.1. Negative results

As depreciation is simply a book cost, it does not involve outgoing cash flow. Lundén (2011) states that there are no legal restraints regarding how long associations can run their activities with a deficit. Thereby, in theory, it is possible that associations with sufficient liquidity can make a loss and keep a lower fee. However the self-cost principle, which according to Lundén (2011), states that the fee shall cover the costs of the association including the depreciation, becomes somewhat obsolete. NCC points out that they will rather make a loss than increase the fee. Lindbäck further believes that HCAs with good liquidity will not raise the fee. An interesting thought is how deficits will affect stakeholders. If a potential buyer considers an annual report, we believe that a natural reaction to a negative result also will be negative. However, we believe that if this approach becomes established among the practitioners, and hence considered the proper way, this practice perhaps becomes legitimate (Suchman, 1995). It is however questionable whether this approach would lead to a fulfilling purpose of accounting and annual reports with regards to the qualities that an annual report needs to attain according to ÅRL. It is stated by PricewaterhouseCoopers (2012) that the balance sheet and income statement should be established as a whole to provide a true and fair view of the company’s situation and result. We perceive this quality to become put aside if it would become a standard case scenario that a large part of an entire industry would show deficits each year. Further, if the consequence of the straight-line method will be continuous negative results in the income statements of HCAs, it is interesting to consider whether or not annual reports will be approved by auditors.

5.3.2. Increased fees

If the other approach were to be taken, that is to increase the fees to cover the increased depreciation charges, members would be affected in an unjust manner. This is due to the fact that they probably would not have been willing to pay as much for the housing cooperative if they had known that a sudden increase of the fee would become reality. According to Lundén (2011), there is a direct correlation between the level of the fee and the price of the housing cooperative. We believe factors of highest priority to potential buyers are the fee level combined with the price, to be able to calculate a monthly cost of living. Conclusively, we argue that it is positive and preferable that BFN now have clarified their standing point in the
matter, and that clear regulations will provide a situation where consumers understand what they are buying. This enlightenment of consumers, however, might lead to a decrease in the housing market, and that prices of housing cooperatives would be affected. Davidsson at BoRevision further claims that prices do not increase indefinitely (Hellekant 2014a) and Öster points out that no one wants cause prices to decrease, which might be the consequence of an increased level of the fee.

Regardless of which of these approaches HCAs will take, we recognize a risk for variations between associations which might lead to difficulties in interpreting annual reports as well as a negative effect on comparability. Further, we note that it is the liquidity that shows which HCAs are prosperous and which are not (Öster). We understand that regardless of if HCAs change to the straight-line method and therefore make losses or if they continue on with the progressive method, the liquidity will be the same, ceteris paribus.

5.4. Attitudes towards norms and practice

From the perspective of coercive isomorphism, discussed by DiMaggio and Powell (1983), we distinguish that there could have been more comprehensive requirements and expectations from society and in particular potential buyers of housing cooperatives, regarding accounting details of HCAs. A logical assumption is that the focus of potential buyers is on investigating the price and the annual fee, since these are factors that have a great impact on members’ private economic situation. This could result in a situation where there is less pressure on HCAs when it comes to responsibility in accounting. We believe that if society and potential buyers were better informed and had better knowledge about the progressive depreciation method, their requirements in this matter would be different. This is in line with what both Arnell (Lennartsson 2014a) and Brännström (Lennartsson 2014b) state regarding the importance of proper and relevant disclosures.

In this current situation where the outcome is uncertain, the leading HCAs and HCA administrators seem to show the way for the smaller ones, as they have united against the norm setters. This behavior is in line with the mimetic isomorphism (DiMaggio & Powell, 1983). As mentioned above, we believe that HCAs achieve legitimacy when they are unanimous. Further, we believe this achieved legitimacy to be crucial for the HCAs in this debate, and Meyer and Rowan (1977) confirm this by stating that legitimacy increases an organization’s chance for survival. FAR is obviously representing the profession in the accounting area in Sweden. From the perspective of normative isomorphism, discussed by DiMaggio and Powell (1983), the profession is considered to influence what is the right way of managing something. However, in this particular issue it seems that influences from FAR, which represent profession in this field, are not per definition legitimate. We believe that mimetic isomorphism which also creates legitimacy competes with normative isomorphism in the matters of legitimacy. We argue that there are several legitimacy-creating forces, which make it difficult to decide what is legitimate.
6. Conclusions

In this section our conclusions are presented with the aim to answer the research questions formulated in this thesis. Further we present suggestions for future research.

In the debate under study we have identified eight arguments for using the progressive method of depreciation on buildings in HCAs. These arguments have exclusively been stated by the practitioners’ side of the debate. The first argument derives from the deterioration of a building, which is stated to follow a progressive pattern. The second argument is the fact that the concept and purpose of depreciation are difficult to explain to the members of the HCA. Hence, it is preferable to keep the level of depreciation low, in order to enable a larger provision to the external fund, the purpose of which is easier to explain. The third argument is cost related, implying that progressive depreciation is preferable in order to minimize present costs. The fourth argument is related to inflation and is a contributing factor rather than a primary argument. The inflation factor is said to enhance the idea of using progressive depreciation. The fifth argument is the fact that neither the writing in ÅRL, nor previous guidance from BFN, does explicitly exclude progressive depreciation on buildings. The sixth argument considers the fact that the alternative straight-line method of depreciation would imply too many negative consequences for HCAs. The seventh argument is related to the wider argument of negative consequences for the HCA. It regards the situation with piled up cash which indirectly could be generated from a changed depreciation method since the members’ fees are most likely to increase. Collecting large amounts of cash is considered undesirable. The eighth and final argument that we have identified is that the peculiar situation with the external fund in HCAs implies that the purpose of depreciation is downgraded and thus HCAs cannot be compared with other organizations.

We have identified four arguments against using the progressive method of depreciation on buildings in HCAs. These arguments have exclusively been stated by the norm setters’ side of the debate. The first argument is that the progressive method of depreciation on buildings is considered not to be in line with ÅRL. The second argument is that the method is considered not to be in line with the equality principle that must be followed by all economic associations. The third argument derives from the deterioration of a building, which is stated not to follow a progressive pattern. Lastly, the fourth argument considers the matching principle, which would require a presumption of increased future incomes to match the increased costs of depreciation, which is stated not to be the case with HCAs.

Regarding the arguments presented above, we recognize that the arguments for using progressive depreciation on buildings lack relevance from an accounting perspective. The arguments derive from the special characteristics and conditions of a recently constructed HCA, and from that perspective the arguments are more relevant. It is apparent that the particular operations of HCAs do not have an impact on how the norm setters treat depreciation. We argue that inconsistency in the choice of depreciation methods between new and old HCAs reduces the credibility of the practitioners’ arguments. By interpreting the statements and arguments from practitioners it can further be reasoned that their main motive is related to costs and to the policy of minimizing costs at the selling point to enable lower
fees and thereby achieve higher prices of the housing cooperatives. We conclude that the only argument that is credible with regards to the fact that progressive depreciation mainly is used in recently constructed HCAs, is the cost related one as the remaining arguments do not explain why the progressive depreciation should not be applied by older HCAs. We recognize that there is a question that has to be discussed among HCAs which we believe is highly relevant for the debate even though it is not mentioned in our findings, namely the question of who should pay for what in HCAs.

We understand from our findings that a consequence of changing from the progressive to the straight-line method of depreciation would imply greater impact on net income, and the two possible counteractions are either to raise the fee or to make a loss. We believe that a solution that implies increased fees for members can be considered motivated according to the self-cost principle, but it can also more generally be considered unjust towards members. If the members would have known from the start that the fee would be raised, it is likely that they would not have been willing to pay the same price. The other solution, that is to make a loss, would imply that the annual report would somewhat lose its purpose, as a negative result sends out a negative signal, and in this case the negative signal could be false. Thus, comparability will be complicated, and it will be difficult to distinguish which HCAs that are actually struggling economically.

We recognize that the different sides of the debate have different starting points where the norm setters’ side obviously has an accounting viewpoint, whereas the practitioners’ side has a perspective with base in the HCA. Regarding our main question of why norm setters’ and practitioners’ opinions diverge in the matter of depreciation on buildings in HCAs, we argue that it becomes difficult to agree on a solution since the arguments consider different issues: one side proceeds from accounting, and the other side proceeds from organizational circumstances. We believe that a reason contributing to the divergence is the fact that the norm setters have been unclear in their directives. They have to some extent lost credibility when they state that there have never been motives for progressive depreciation on buildings, knowing that it has been widely used over the years. This intensifies the debate because practice is difficult to change, and clarity in the norms is required. We have asked the question of how the debate has come to arise, and we believe that there are several contributing factors. From our findings we understand that the potential buyers of housing cooperatives, and in a way society in general, do not possess enough knowledge to be able to critically evaluate the HCAs’ annual reports and the level of the fee. This indicates that the pressure described in the coercive isomorphism, from society, could be more influential if potential buyers were better informed and had better understanding of the HCA’s operations. The lack of pressure from society has allowed the appliance of the method to proceed, and as it has neither been questioned by BFN, the opposition to the method has occurred suddenly. The lack of knowledge of the potential buyers and society benefits HCAs today, in terms of being able to have low fees and receive high prices, but will probably be disfavoring towards future generations.
6.1. Suggestions for future research

This study has led to questions which we believe are subject to further research.

From carrying out this study we have learned that it is of importance that the disclosures of the HCAs annual reports provide proper and relevant information regarding the connection between the fee charged, the accounted result, the provision to the maintenance fund, and the expected future expenses connected to the maintenance plan. The first suggestion is hence to examine which information is desired from the potential buyers’ perspective and also current members. Another question that is relevant to research is what parts of the annual report are difficult for the mentioned stakeholders to understand, and these parts would be beneficial to clarify and elaborate on.

The second suggestion for future research is to carry out a study regarding long depreciation periods, which derive from long life-spans on buildings, used by many HCAs. This topic is highly debated. The study could investigate the underlying motives for the chosen life-spans and compare them with other industries, for example, industries where there are incentives for tax minimizing.

We understand from our discussion that there is a need to discuss and clarify the purpose of depreciation. The third suggestion is therefore to carry out a study of what depreciation is supposed to reflect and how this perception has developed over time. It could further be interesting to include an international comparison on how depreciation is viewed upon internationally. The contribution of the study would be to clarify what factors and perceptions influence the view on depreciation.
7. References


Appendix

Appendix A - Diagrams of the different methods of depreciation

Depreciation amount

Value of the asset

Figure A1: Straight-line depreciation method

Figure A2: Progressive depreciation method

Figure A3: Declining balance depreciation method

Figure A4: Unit of production depreciation method
Appendix B – Questionnaire

Questions for the representative of the norm side (Caisa Drefeldt)

- Tell us a little bit about yourself: what is your professional experience in the relevant field?

- What have been the main motives for making a change in the regulations regarding progressive depreciation? In what manner has the prevailing practice been considered? Is it not true that the norm setting organ is supposed to make it easier for the practitioners to apply the rules: what is your view on this subject? In other words, has regard been taken to the practitioners?

- Is there room for interpretation in K2/K3, or is FARs statement that progressive depreciation not can be considered to be allowed the only “right” interpretation that can be made?

- What is your view regarding what depreciation is supposed to reflect? Is this a question of interpretation or is it clear what depreciation should reflect?

- Has progressive depreciation ever been considered motivated, and if so what were these motives?

- What effects do you think we will see when K2 and K3 is implemented?

- Are K2 and K3 suitable for housing cooperative associations or are further regulations required?

- FAR published a press release February 14, 2014 where it is suggested that BFN excludes housing cooperative associations from the new regulations until the latter have brought forward a long-term solution adapted for accounting in housing cooperative associations. What are the motives to excluding housing cooperative associations from the new regulations? Do you consider that they should be excluded, and thereby be able to continue to apply progressive depreciation? In what sense does it matter what form of company/association you have, when it comes to which method of depreciation that can be considered to be allowed?
Questions for the representatives of the practitioner side (HSB, SBC, Bostadsrätterna)

- Tell us a little bit about yourself: what is your professional experience in the relevant field?

- We have noticed that a lot of the housing cooperative associations apply progressive depreciation on their buildings. How do you justify the usage of progressive depreciation? What are the motives and on what accountability grounds are these motives based upon?

- Have the motives of applying progressive depreciation always been the same, or have they changed/developed over time?

- How can progressive depreciation be justified and motivated considering the equality principle in housing cooperative associations, which states that it is not acceptable to push the burden onto future generations?

- Are you of the opinion that there is room for interpretation in the upcoming change of the regulation?

- What would the consequences be of changing from the progressive to the straight line depreciation method?

- Despite of what FAR/BFN will consider to be allowed, what would be the motives to continue to apply progressive depreciation?

- FAR suggested that housing cooperative associations should be excluded from the new regulations until BFN has brought forward a long-term solution adapted for accounting in housing cooperative associations. Knowing that FAR’s policy group of accounting has stated that progressive depreciation on building under no circumstances can be considered to be allowed, do you consider that housing cooperative associations should be excluded from the regulations, and if so: why?

- What is your view on true and fair view and Swedish GAAP on the subject of depreciation on buildings in housing cooperative associations? From a “true and fair view” perspective, do you think that progressive depreciation is more motivated than straight-line depreciation?

- What are the determining factors when choosing between the straight line and progressive depreciation method? Are there any factors in practice that come into play, and make one of the methods favorable over the other?

- What is your view on depreciation? What do you think it should reflect?