



UNIVERSITY OF GOTHENBURG  
SCHOOL OF BUSINESS, ECONOMICS AND LAW

The IFRS for Non-publicly Accountable Entities  
and  
the K-project  
A Comparative Study

Bachelor Thesis in Business Administration

Financial Reporting and Analysis

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*Gothenburg, May 2009*

*Thank you,*

*Anna Maria Eriksson*

## Sammanfattning

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### Examensarbete i företagsekonomi, Handelshögskolan vid Göteborgs Universitet, Extern redovisning och företagsanalys, Kandidatuppsats, VT 2009

**Författare:** Anna Maria Eriksson

**Handledare:** Gunnar Rimmel

**Titel:** The IFRS for NPAEs and the K-project – A Comparative Study

**Bakgrund och problem:** Samtidigt som IASB håller på att ta fram internationella redovisningsstandarder för små och medelstora företag pågår Bokföringsnämndens K-projekt. K-projektet är ämnat att förenkla redovisningsreglarna för små och medelstora svenska företag. Uppsatsens jämförande studie, där tyngdpunkten är lagd på fördelar och nackdelar, utforskar vilka skillnader som finns mellan det internationella och det nationella projektet.

**Syfte:** Att beskriva och utreda respektive regelverks konsekvenser samt att undersöka K-projektets framtid och huruvida EU kommer att implementera IFRS for NPAEs.

**Avgränsningar:** Den jämförande studien fokuserar på K-projektets tre första kategorier av företag. Anledningen till detta är att studien är en jämförelse mellan regelverk för små och medelstora företag.

**Metod:** Två intervjuer har genomförts med experter inom redovisning. Intervjuerna har analyserats utifrån syftet med studien. Uppsatsens analys och slutsats är grundande på den teoretiska referensramen och det empiriska materialet.

**Analys och slutsats:** Positiva och negativa konsekvenser av respektive regelverk har identifierats. Det internationella regelverket innebär en global harmonisering av redovisningen medan det nationella regelverket är bättre anpassat efter svenska företags förhållanden.

**Förslag till fortsatt forskning:** Att göra en jämförande studie när båda projekten är färdiga. Det kunde också vara intressant att jämföra IFRS for NPAEs med något annat lands nationella redovisningsregler för samma typ av företag. Ett tredje förslag är att undersöka om kvaliteten och jämförbarheten i årsredovisningarna har förbättrats i de företag som kommer att tillämpa IFRS for NPAEs.

## Resumen

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**Tesis de Licenciatura en Administración y Dirección de Empresas, Departamento de Ciencias Económicas y Empresariales de la Universidad de Gotemburgo, Semestre de Primavera 2009**

### Título

La Norma Internacional de Información Financiera para Pequeñas y Medianas Entidades y El C-proyecto – Un estudio comparativo

### Introducción

El IASB es el Consejo de Normas Internacionales de Contabilidad y está desarrollando el Proyecto de Norma Internacional de Información Financiera para Pequeñas y Medianas Entidades (NIIF para las PYMES). A la misma vez el Consejo de Normas de Contabilidad en Suecia está elaborando su C-proyecto de normas de contabilidad nuevas para empresas suecas.

El objetivo del proyecto del IASB es crear una versión de la Norma Internacional de Información Financiera (NIIF) simplificada para empresas no cotizadas en la bolsa y que principalmente publican su informe financiero para bancos y propietarios externos. Grupos cotizados en la bolsa aplican la NIIF. El IASB todavía no ha terminado el proyecto.

El C-proyecto consiste de cuatro categorías de empresas y cada categoría incluye empresas de similar tamaño. La categoría cuatro consiste de grupos cotizados y ellos deben usar la NIIF. Las empresas en la categoría tres son las PYMES más grandes y deben usar la NIIF para las PYMES. El Consejo de Normas de Contabilidad en Suecia hará modificaciones en la norma como la contabilidad y la determinación de la renta a gravar están relacionadas en Suecia. La categoría dos está formada por PYMES que tienen que aplicar reglas de contabilidad suecas. Las entidades en la categoría una también deben usar reglas de contabilidad suecas. Se han implementado algunas reglas del proyecto pero las reglas viejas también siguen estando en vigor.

La pregunta principal en la tesis es la siguiente:

*¿Cuáles serán las consecuencias de la Norma Internacional de Información Financiera para Pequeñas y Medianas Entidades y el C-proyecto?*

La preguntas subordinadas en la tesis son las siguientes:

- *¿Existe un futuro para el C-proyecto?*
- *¿Implementarán la Norma Internacional de Información Financiera para Pequeñas y Medianas Entidades en la Unión Europea?*

El objetivo de esta tesis es comparar la NIIF para las PYMES con el C-proyecto. Las consecuencias positivas y negativas de las dos normas van a ser analizadas. El objetivo es

también analizar una evolución probable para el C-proyecto en un mundo cada vez más globalizado e intentar averiguar si la UE aplicará la norma del IASB.

## **Metodología**

Este estudio es una investigación cualitativa que es apropiada cuando uno está investigando población pequeñas y el objetivo es describir toda la población. En este caso la población consiste de la NIIF para las PYMES y el C-proyecto y el objetivo es describir los dos proyectos.

Tanto fuentes de información primaria como fuentes de información secundaria han sido usadas para escribir esta tesis. Dos entrevistas con expertas en contabilidad han sido realizadas para colgar la información primaria necesaria. Las dos tienen conocimientos profundos de los proyectos. Libros, artículos científicos y páginas web han sido usadas para colgar información secundaria.

## **Teoría**

### **Ventajas con la NIIF para las PYMES**

Los mercados de capitales del mundo están cada vez más integrados y existe una necesidad de una norma de información financiera común para las PYMES que compiten en estos mercados. Si las PYMES usan las mismas normas, será más fácil entender y comparar los informes anuales. Muchos bancos son empresas multinacionales y están presentes en varios mercados de capitales. Existen investigaciones que muestran que las empresas que aplican la NIIF tienen mejor acceso a financiación que las empresas que aplican las normas nacionales de información financiera.

La NIIF para las PYMES mejorará la comparabilidad entre empresas y esto significa que los suministradores podrán comparar empresas y hará de elejan la más estable como compañero de negocio. Podrán tomar mejor decisiones para sus relaciones comerciales y el riesgo de vender a crédito se reducirá.

La NIIF para las PYMES hará posible una armonización internacional de la información financiera. Esto facilitará una expansión internacional para la empresa y aumentará la competencia en los mercados. La flexibilidad de las entidades se incrementará y será más fácil encontrar suministradores y compradores.

La calidad de la información financiera aumentará en muchas entidades cuando empiecen a aplicar la NIIF para las PYMES. En muchos países les faltan normas de información financiera para empresas pequeñas y medianas o solamente existen reglas deficientes.

### **Desventajas de la NIIF para las PYMES**

Un cambio a la NIIF para las PYMES será costoso y exigirá formación de los empleados. La norma es complicada y formación será necesaria para aprender aplicarla. Para las PYMES que aplicarán la NIIF para PYMES existe un riesgo que tengan que pagar más impuesto como van a llevar la contabilidad en otra manera de lo que hacen actualmente.

Para poder realizar una armonización de normas de información financiera en el mundo es necesario que las PYMES en todos los países apliquen la NIIF para PYMES. Esto podría ser difícil por motivos culturales, políticos y económicos. Las reglas de contabilidad forman parte de la cultura, la política y la economía de un país. Muchos países desarrollados probablemente estén renitentes a la NIIF para las PYMES como ya tienen normas nacionales de información financiera que funcionan bien.

En el proyecto del IASB solamente existirá una norma para todos los tipos de PYMES y podrá ser demasiado complicada y costosa para las entidades más pequeñas. Las normas nacionales de información financiera pueden ser más sencillas y menos costosas de aplicar.

El IASB no puede tener en consideración las legislaciones nacionales cuando escriben la norma. En algunos países usan la contabilidad como un instrumento para determinar la renta a gravar. Por eso es probable que se presenten problemas cuando estos países implementen la NIIF para PYMES.

### **Ventajas con el C-proyecto**

En el C-proyecto existen cuatro categorías de empresas y cada categoría contiene reglas diferentes para los distintos tipos de empresas. Las reglas son escritas para las circunstancias de cada tipo de empresas y por eso serán fáciles de aplicar.

Las reglas de las categorías una y dos en el C-proyecto son más sencillas que las de la NIIF para PYMES. Las empresas que aplicarán estas reglas no necesitan costear formación para los empleados. Las reglas de categoría una y dos no exigen informes financieros tan extensos que la NIIF para PYMES exigirá.

### **Desventajas con el C-proyecto**

La comparabilidad entre empresas disminuye cuando los países tienen sus normas de información financiera y las diferencias puedan incrementar. Será difícil comparar la información financiera de las empresas suecas con las de las empresas extranjeras. Como las PYMES aplicarán reglas diferentes también será difícil comparar PYMES entre sí en Suecia.

El acceso a financiación extranjera disminuye cuando las PYMES aplican reglas de información financiera suecas y pueda ser más difícil encontrar suministradores en otros países. Una expansión internacional es complicada para las empresas cuando las normas de información financiera se distinguen entre países.

Los auditores y los bancos tienen que tener conocimientos en las diferentes reglas de información financiera que existen en el C-proyecto. Cada categoría y tipo de empresas tiene sus reglas. Esto puede confundir a los usuarios de los informes anuales.

### **La Unión Europea**

El objetivo de la UE es crear un mercado común y hacer posible una libertad de movimiento de capital dentro de las fronteras. La unión trabaja por normas de información financiera comunes en los países miembros. A la comisión no le ha gustado la NIIF para las PYMES.

## **Empiria**

Dos expertas en contabilidad que se llaman Caisa Drefeldt y Pernilla Lundqvist han sido entrevistadas. Las dos expertas tienen mucho conocimiento especializado en los proyectos del IASB y del Consejo de Normas de Contabilidad en Suecia.

Drefeldt sostiene que las reglas del C-proyecto no influyen la competitividad de las PYMES suecas mientras Lundqvist dice que estas reglas son una desventaja para las PYMES suecas que compiten en los mercados internacionales. Lundqvist también sostiene que bancos y suministradores en otros países no entienden los informes anuales que establecen las PYMES suecas. El C-proyecto pueda limitar las posibilidades de las PYMES suecas de expandir en un mercado internacional.

Drefeldt piensa que la UE no implementará la NIIF para las PYMES durante los próximos años. Ella dice que la Comisión Europea está descontenta con el proyecto del IASB. La razón es que la Comisión piensa que la norma es demasiado complicada para muchas empresas. El objetivo de la UE es modernizar las directivas europeas sobre las reglas de contabilidad y no existen planes de implementar la NIIF para las PYMES en los países miembros.

La relación entre la contabilidad y la determinación de la renta a gravar hará una implementación de la NIIF para las PYMES sin modificaciones imposible. Cuando se desarrollan normas de información financiera en Suecia se necesita tener en cuenta esta relación.

Por momento una investigación estatal está en curso en Suecia. La investigación aclarará si la relación entre la contabilidad y la determinación de renta a gravar debe quedar. Si la investigación propone que esta relación no debería existir las reglas de las categorías una y dos del C-proyecto serán inútiles.

## **Análisis**

Una consecuencia positiva de usar la NIIF para las PYMES será que la comparabilidad entre empresas se aumentará. Si todas las PYMES usan las mismas normas sería más fácil comparar los informes financieros. Las empresas, los bancos, los auditores y los suministradores solamente tendrán que aprender una norma de información financiera. Las empresas tendrán mejor acceso a financiación extranjera.

Los grupos en Suecia tienen que aplicar la NIIF cuando preparan sus informes anuales. La preparación del informe anual del grupo sería más fácil si todas las empresas en el grupo usan la NIIF para PYMES o la NIIF.

La aplicación de la NIIF para las PYMES será costosa para muchas entidades y por ellas los costes podrían exceder las ventajas. Los empleados necesitarán formación en la norma y si la relación entre la contabilidad y la determinación de renta a gravar quedará podría ser que empresas tienen que pagar más impuesto que antes.

El C-proyecto está mejor adaptado que la NIIF para las PYMES a las circunstancias en Suecia y a los distintos tipos de empresas. No rige informes anuales tan extensos y se necesita menos tiempo para establecer los informes anuales.

El C-proyecto impide la expansión internacional de empresas como actores en el extranjero no pueden entender la informe anual de la empresa. El C-proyecto no contribuye a la armonización de normas de información financiera ni a la comparabilidad.

## **Conclusión**

*¿Cuáles serán las consecuencias de la Norma Internacional de Información Financiera para Pequeñas y Medianas Entidades y el C-proyecto?*

Las consecuencias positivas de la NIIF para las PYMES serán que facilitará la armonización internacional de la información financiera y que aumentará la comparabilidad entre entidades. La calidad de los informes anuales se mejorará. Las consecuencias negativas serán que las normas no serán adaptadas a las circunstancias nacionales. El C-proyecto está adaptado a las circunstancias nacionales, por ejemplo a la relación entre la contabilidad y la determinación de la renta a gravar. Las consecuencias negativas del C-proyecto serán que el proyecto contrarrestará una armonización internacional y la comparabilidad entre empresas en distintos países. Otra consecuencia positiva de la NIIF para las PYMES será que todas las PYMES aplicarán la misma normas y esto facilitará para grupos de empresas y los bancos. Consecuencias negativas del mismo proyecto serán que podrá ser demasiado complicada para las empresas pequeñas y también muy costosa su aplicación. Consecuencias positivas del C-proyecto serán que existen reglamentos diferentes para distintos tipos de empresas. Por eso las reglas serán más adaptadas a las circunstancias de cada empresa. Consecuencias negativas serán que los grupos de empresas, los bancos y los auditores tendrán que tener conocimiento en varios reglamentos.

- *¿Existe un futuro para el C-proyecto?*

El C-proyecto probablemente esté vigente mientras que la relación entre la contabilidad y la determinación de la renta a gravar siga existiendo. Si desaparece esta relación solamente las partes iguales a la NIIF o a la NIIF para las PYMES quedarían. Si la Unión Europea decide implementar la NIIF Suecia tendría que implementarla también.

- *¿Implementarán la Norma Internacional de Información Financiera para Pequeñas y Medianas Entidades en la Unión Europea?*

La Comisión Europea piensa que la NIIF para las PYMES es demasiado complicada para muchas empresas y por eso una implementación de la norma dentro de poco parezca improbable. Si más países miembros proponen que la unión debe aplicar las normas podría ser que la Comisión cambie su decisión.

## **Escritora**

Anna Maria Eriksson



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# 1. Introduction

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*In this chapter, the background will be described and the problem of the thesis will be discussed and stated. Furthermore, the purpose of writing a thesis about this specific problem will be outlined. Finally, the target group, the delimitations and the disposition are described.*

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## 1.1 Background

In 2004, the International Accounting Standards Board (IASB) began its International Financial Reporting Standards for Non-publicly Accountable Entities (IFRS for NPAEs) project. The IASB is an independent standard-setting board, whose objective is to provide a common standard for financial reporting to facilitate the integration of the world's capital markets (iasb.org (b)). The objective of the project is to design International Financial Reporting Standards (IFRS) for small and medium-sized companies without any public accountability, which primarily publish their financial reports for external users. The full version of IFRS is made for listed companies with equity investors and covers many issues, includes comprehensive guidance in implementation and contains several disclosures. Since the needs of the users of the Non-publicly Accountable Entities' financial reports are different from those of public companies, modifications are needed. Many NPAEs consider full IFRS a burden, which has been growing due to an increasing number of user countries and more detailed instructions. Solvency, liquidity and shorter-term cash-flows are of greatest importance for many NPAEs. The IASB has to consider user needs and costs and benefits of preparing the financial statements while designing the IFRSs for NPAEs (iasb.org (a)). The IFRS for NPAEs has changed name twice during the process, first it was called the IFRSs for small and medium-sized entities (IFRS for SMEs), and after that the IFRS for Private Entities. Since the Exposure Draft of a proposed IFRS for Small and Medium-sized Entities was published the process has been through a comment period, which ended in November 2007, an analysis made by staff and finally a field test took place in 116 companies from 20 countries. A Working Group met in April 2008 to go through the results from all the former phases in the process. In May and July 2008 the Working Group sent a proposal of changes to the board. The staff presented its recommendations to the Board in May 2008. After that the IASB began to make some modifications in the standards and to write the final version of the IFRS for NPAEs, which is presumed to be published in the second quarter of 2009 (iasb.org (a)).

The Swedish Accounting Standards Board is working on a national project for companies, which is called the K-project. All types of companies will be divided into four categories, named K1, K2, K3 and K4. Each category will contain companies of similar type and size. The objective with this project is to facilitate the establishment of accounting statements for companies. The Swedish Accounting Standards Board began its K-project in 2004 and the Swedish state has set up two commissions, one of which still has not delivered its final report. This report is expected in 2009. The other commission delivered its report in 2008. The commissions' reports will bring about changes both in the tax legislation and the account legislation (bfn.se (a)). The category K1 contains private manufacturers and small partnerships, which are owned by physical persons. K2 is mostly formed by small joint-stock companies and economic associations. All larger private companies are included in the K3-group (deloitte.com) and all listed companies, which will have to apply the IFRS belong to group K4 (bfn.se (a)). The current Swedish accounting rules remain in force until the

consequences of the commissions' reports have been implemented in the K-project. The first part of the regulations in K2, which concerns small private joint-stock companies, was finished in June 2008. Companies are allowed to apply this regulation when establishing the annual report for 2008 and thereafter. The Swedish Accounting Standards Board will base the regulations for the K3-category on the IFRS for NPAEs. Each regulation in the K-project applies as soon as the decision to implement it has been taken. It is also possible to apply the former standards. These standards will be in force until the essential part of the new regulation has come into force and K2 and K3 have been adapted to the changes in the tax- and account regulations (bfn.se (a)).

## **1.2 Problem discussion**

Both projects are under process and are expected to be finished in a near future. At this stage it is only possible to assume what effects the projects will have on the companies, their stakeholders and the companies' competitiveness. The impacts the projects will have will differ due to the fact that one is an international standard while the other is a national standard. It is interesting to investigate the K-project's chances in a globalized world with integrated capital markets. The EU works for a common European capital market where companies can compete on equal conditions.

## **1.3 Problem definition**

The thesis is meant to be a comparative study of the IFRS for Non-publicly Accountable Entities and the Swedish K-project.

The main question is stated as follow:

*What will be the consequences of the IFRS for NPAEs and the K-project?*

The sub questions are stated as follow:

- *Will there be a future for the K-project?*
- *Will the EU implement the IFRS for NPAEs?*

## **1.4 Purpose**

The purpose of the analysis is to examine the consequences of implementing the IFRS for NPAEs and the K-project respectively. The purpose is also to examine whether there is a future for the national K-project in a world of integrated capital markets and if the EU will implement the IFRSs for NPAEs in the future.

## **1.5 Target group**

This thesis is intended for people who are interested in the Swedish K-project and the IFRSs for NPAEs and their consequences. The thesis is also intended for people who are interested in the harmonization process in the EU.

## **1.6 Delimitations**

The comparison is between the global IFRS for Non-publicly Accountable Entities project and the Swedish K-project. National account regulation projects in other countries are excluded from this thesis.

The IFRS for NPAEs is compared to category 1-3 in the Swedish K-project while category 4 is left outside since it is a translation of the full IFRS. Category 4 is shortly described in the theoretical framework of this thesis to give a more comprehensive picture of the K-project.

## **1.7 Disposition**

### Chapter 1 – Introduction

Firstly, a background and a problem discussion to the thesis are given and secondly the problem and the purpose are stated. Finally, the target group of the thesis and its delimitations and disposition are outlined.

### Chapter 2 – Methodology

In this chapter the procedure of the research is described, including the information gathering and processing. The validity of the thesis and other important aspects are discussed.

### Chapter 3 - Theoretical Framework

The theoretical framework deals with accounting standards of each project and the advantages and disadvantages of the standards. The analysis is mainly based on this chapter.

### Chapter 4 - Empirical Research

In this chapter the interviewees and the material from the interviews are presented. The analysis is partly based on the empirical research.

### Chapter 5 – Analysis

The analysis is based on the theoretical framework and the empirical research. It examines the positive and negative consequences of the IFRS for NPAEs and the K-project.

### Chapter 6 - Concluding Discussion

In this chapter conclusions from the analysis are drawn and the answers to the main question and the sub questions are given.

## 2. Methodology

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*In this chapter, the choice of method will be stated. Further, the research method, the collection of data and the interviews will be outlined. Finally, the data will be analysed and the criticism of the sources, the reliability, the validity and the relevance will be discussed.*

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### 2.1 Mode of Procedure

In this study the Swedish K-project led by the Swedish Accounting Standards Board and the IFRS for NPAEs led by the IASB are being examined. To clarify the advantages and disadvantages of the different accounting reporting systems a comparative method has been chosen. A comparison between these two projects illustrates the aspects of having either a national accounting regulation or an international accounting regulation. The strength of this method is that it concentrates on two accounting reporting systems which are both relevant for Swedish accounting and the consequences of choosing one and excluding the other are outlined. The Swedish K-project could be seen as a combination of IFRS and Swedish accounting regulations.

Other countries' national accounting systems are left outside the study. The choice to compare two accounting systems has made it possible to do more research about the specific systems being examined compared to if several systems were examined. However, the impacts of implementing IFRS for NPAEs in more countries than Sweden are discussed and even other countries opinion of the standards set by the IASB. This helps to achieve a more many-sided picture of IFRS for NPAEs and to better understand the effects of implementing the standards. The Swedish State Inquiries which are investigating the connection between accounting and taxation and the obligation of auditing are also mentioned in the essay because these will have an impact on accounting in the future. The development in the accounting area in the EU is also examined as Sweden is a Member State. The Euro Directives and their impacts on Swedish Financial Reporting are outlined.

Even though IFRS for NPAEs is only compared to the Swedish national accounting system, I believe that the comparison can demonstrate the advantages and disadvantages for other nations as well, of having a national accounting system or an international accounting system. The advantages and disadvantages of having a national accounting system created for the specific economic context in a country are represented by the Swedish K-project in this thesis.

### 2.2 Research Method

There are two kinds of research methods; the quantitative and the qualitative method. It is possible to either employ one of them or combine the two of them in a research project. Each method in its turn is a concept covering several different ways of working (ne.se (a)).

The quantitative research method is used in the social sciences and encompasses methods of working in which the researcher systematically gathers empirical and quantitative data. These data are processed into statistical material and the results of the processed data are analyzed from testable hypotheses. When employing the quantitative method the way of working is usually formalized and each process step is clearly defined and isolated from the other steps.

Representative selections from a population are examined with different types of measuring instruments, whose task is to discover connections, allocations and variations in the selection (ne.se (a)).

The quantitative research method is almost obligatory when studying large populations. The best situation is if the researcher is not part of the population being examined, because being an outsider enhances the objectivity of the research. Different types of techniques, such as questionnaires, are connected to the quantitative research method. The prevalent research method in the social sciences was the quantitative research method before the 1960's. After the 1960's, it has become more common to combine the quantitative and the qualitative method or to complement the first one with the latter one (ne.se (a)).

The qualitative research method is used in the social sciences and encompasses methods of working in which the researcher is present in the social context, which is being examined, the gathering of data and the analysis are taking place at the same time and in interaction. Further, the researcher tries to identify both people's actions and the significations of these actions. Qualitative research methods usually comprise smaller populations than quantitative research methods, as the purpose of employing this method is to describe the whole population and not only a selection (ne.se (b)).

The qualitative research method was developed by the School of Chicago in the beginning of the 1900's, but the method long remained marginal, since the quantitative method was dominating the research. Since the 1960's, the qualitative research method has been used with great frequency. The method is nowadays used in most social sciences. The qualitative and quantitative methods are often combined to achieve as comprehensive a picture as possible of the field which is being studied (ne.se (b)).

In this study a qualitative research method has been employed since the population only consists of two sets of financial reporting standards. The gathering of data and the analysis took place at the same time. I found a qualitative research method most appropriate for this comparative study. The purpose of this study was to understand the K-project and the IFRS for NPAs from different perspectives and to identify the advantages and disadvantages of the two regulations.

## **2.3 Collection of Data**

Data can be divided into two different groups; primary and secondary data. Both are useful while writing a thesis but both are calling for researchers to being selective and objective (Wiedersheim-Paul & Eriksson 2001).

The primary data are data, which earlier have been non-existent. These data are collected during the present study. Primary data are collected through different methods of investigation for example interviews, questionnaires and experiments. The researcher has to choose the methods that are most adequate for his or her study. The methods of investigation need to be designed to the specific environment in which they are going to be used in. Questionnaires need to be carefully prepared both concerning the questions and the layout. It is necessary for the researcher to consider the reliability and validity of the collected data (Wiedersheim-Paul & Eriksson 2001).

Secondary data are existing data, which are applied in another study than where the data first were collected. Books, theses or journals are all examples of secondary data. It is often easy to find a large amount of secondary data, but the researcher needs to be aware of the fact that the data originally were used for another purpose and that the data could be less relevant for this study. The researcher also has to consider the reliability and validity of the sources that he or she wants to use. Further it is possible to divide secondary data into two sub-groups; internal data and external data. The researcher is able to find the first one in for example the company but the latter one is only possible to find outside the company (Wiedersheim-Paul & Eriksson 2001).

In the writing process of this thesis both primary data and secondary data have been used. The primary data used to write this thesis were collected through interviews. I found the interview to be the most adequate method for gathering primary data. The interviews made it possible to ensure that the interviewees understand the questions correctly and for me to ask when I did not understand the answers. That is impossible when questionnaires are used to gather primary data and I did not find experiments to be relevant for my study. The secondary data which I have used consist of books, journals and web-sites. These sources provided me with useful information, which could sometimes be compared. Using both primary and secondary data made it possible to combine the theory in the secondary sources with the expertise from professionals.

At the time of writing the final version of this thesis neither the K-project or the IFRS for NPAEs were available. I have therefore used the information available so far to describe and compare the two sets of financial reporting standards. I have used the Exposure Draft of IFRS for Small and Medium-Sized Entities and the Project Updates to find information about the IASB's project and the Swedish Accounting Standards Board's Website to find information about the K-project. The interviews also contributed a lot of information about the regulations. The comparison between the K-project's category 1-3 and category 4 is described in the thesis to give the reader a comprehension about how the K-project is designed.

## **2.4 Interviews**

As mentioned above, interviews were used to gather primary data. In order to get a greater understanding of both the K-project and the IFRS for NPAEs and the advantages and disadvantages of the sets of rules I interviewed accounting experts which are well-informed on the subjects. I contacted Caisa Drefeldt who is a member of the Swedish Accounting Standards Board and is one of the persons who are creating the K-project. I also contacted Pernilla Lundqvist who is an accounting expert at KPMG in Gothenburg. I met both for an interview and they allowed me to record the interviews. I chose to record the interview in order not to miss anything and to be able to go back and listen over again. This reduced the risk of misunderstanding and other mistakes. I chose to interview two persons I knew had different opinions about the K-project and the IFRS for NPAEs to hear both sides of the story, so to speak. Interviewing people with different points of view gave a more comprehensive picture of both financial reporting standards systems.

Before the interview I did research in the subject to be able to ask the right question and to be prepared. The purpose of my interview with Drefeldt was to get expertise from a person involved in the K-project. Drefeldt described the K-project for me and expressed what she thought were the advantages and disadvantages of the K-project. Drefeldt was well-informed



about the IFRS for NPAEs and described the standards and gave her opinion about them. The purpose with my interview with Lundqvist was to interview someone who knows the effects of implementing the K-project and was well-informed about the companies' situations. I asked for the interviewees' opinions about the advantages and disadvantages of the K-project and IFRS for NPAEs and in chapter 4 the interviews are presented. I have deliberately let the interviewees' opinions be stated in the text. I had to stay objective but let them express their thoughts to be able to better understand the impacts of the accounting systems. Both interviews were visiting interviews and that enhanced the quality of the interview as the risk of misunderstanding and disturbance was diminished. The respondents are described in chapter 4 to show the reader their great experience of accounting and how well-informed they are about the subject.

I chose to use a semi-structured interview guide and the same questions were asked at both occasions. Using the same interview guide made it possible to compare the answers the two interviewees gave. I chose to prepare the questions before the interviews and to structure the questions in some areas (Rimmel 2003). The areas I asked questions about were the K-project, IFRS for NPAEs, Advantages and disadvantages of the K-project and finally the future. The interview guide on the next page has been employed in the interviews.

### The K-project

1. Why was the K-project undertaken?
2. Why did the Swedish Accounting Standards Board choose to develop different standards for different categories of companies instead of developing one all-embracing standard?
3. What is significant for each category?
4. What regulations are applied in each category?
  - Why has the Board chosen to apply the IFRS for K3 and K4?
  - Why has the Board chosen to develop its own regulations for K1 and K2?
5. What accounting principles are important in the K-projects regulations?

### IFRS for NPAEs

6. What effect will the Swedish K-project have on Swedish companies' competition possibilities in an international market?
7. What is your opinion about the IFRS for NPAEs?
8. What are the advantages of the IFRS for NPAEs?
9. What are the disadvantages of the IFRS for NPAEs?
10. What accounting principles are important in the IFRS for NPAEs?
11. Do you think that the EU will implement the IFRS for NPAEs?

### Advantages and disadvantages of the K-project

12. What are the advantages and strengths of the K-project?
  - With concern to former regulations?
  - What are the advantages with having one regulation for each category?
  - What are the benefits of the K-project in comparison to the IFRS for NPAEs?
13. What are the most significant simplifications which the K-project involves?
14. What are the disadvantages and weaknesses of the K-project?
  - With concern to former regulations?
  - What are the disadvantages with having one regulation for each category?
  - What are the weaknesses of the K-project compared to the IFRS for NPAEs?

### The future

15. When will the K-project be complete?
16. How do you think the future of the K-project will be?

## **2.5 Analysis of Data**

The analysis in this thesis is based on the information in the theoretical framework and the empirical research. I have compared the Swedish K-project and IFRS for NPAEs and tried to outline a likely future outcome. The effects of the regulations and the advantages and disadvantages of choosing either of them are analysed. The analysis is not meant to be a guideline but to show the positive and negative impacts of both regulations. The analysis outlines the benefits and costs of implementing the IFRS for NPAEs to a greater extent than those of the K-project. The reason for this is that it was easier to find information about the IFRS for NPAEs than the K-project. The analysis is meant to be between the K-project and the IFRS for NPAEs but parallels with impacts of implementing the latter in other countries than Sweden are stated. The development in the accounting sector in the EU is also analysed as Sweden is a Member State.

The focus in the analysis will be on the consequences of applying either the IFRS for NPAEs or the K-project for the small and medium-sized companies but also for the stakeholders and other users of companies' financial statements.

## **2.6 Criticism of the source**

First of all, it is important to decide if a source is adequate for the purpose of the thesis. It is also important to consider the origin of the text and the writer's purpose when writing the text. Many people want to convey a message or have an influence on people's opinions. The veracity needs to be analysed to make sure that all data are correct. One needs to be more careful when reading older documents and books to make sure no changes have occurred since they were published. One needs to be careful when using Web-sites as secondary data because it is easier to publish texts on the Internet than in a journal or book (Wiedersheim-Paul & Eriksson 2001).

The Exposure Draft of a Proposed IFRS for Small and Medium-Sized Entities and other sources from the IASB of course gives a very positive picture of the IFRS for NPAEs. It is therefore important to underline that it is IASB's opinion. As a counterbalance other sources with another point of view are used, for example a scientific article from Accounting in Europe and KPMG's website.

The information for the Swedish Accounting Standards Board also gives a positive picture of the K-project and also in this case a counterweight is needed.

During the interviews I asked the interviewees about what they considered were the advantages and disadvantages of the K-project and IFRS for NPAEs, respectively. The reader of the thesis needs to be aware that these are the interviewees' opinions.

My intention has been to use sources with as many different points of view as possible to be able to write the thesis as objectively as possible. I have been so objective as I possibly could and I have avoided to express my personal opinion.

## **2.7 Reliability**

The reliability indicates the trustworthy and the usefulness of measures which are being used in a study. The survey measures could for example be a questionnaire or an interview. One needs to be observant of the reliability of the survey measures since the researcher often designs the measures themselves and may want to influence the persons answer (Ejvegård 1996:67f). I consider the reliability of the interviews to be high, therefore the same interview guide has been used both times and well-informed persons have been interviewed. People with knowledge about a subject are often not so easily influenced by the interviewer's opinion. The reliability of interview is high since the interviewees can ask if they doubt the signification of a question compared to if questionnaires were employed.

## **2.8 Validity**

Validity means that the researcher really is measuring what he/she is supposed to measure. If the reliability is low the validity also becomes low. But high reliability does not automatically mean high validity. The validity can only be tested through a comparison with another result of what is being examined (Ejvegård 1996:69f). I believe that I have achieved a high validity because I have had the opportunity to contact Drefeldt and Lundqvist for further questions during the whole writing process. Apart from some scarcity of secondary data information about advantages and disadvantages of the K-project in secondary data I was able to find the information needed for carrying through this process. Luckily Drefeldt and Lundqvist contributed the information about the advantages and disadvantages of the K-project. Consequently, I have been able to measure what was meant to be measured.

## **2.9 Relevance**

Relevance means that the study is of interest for people other than the researcher (Wiederheim-Paul & Eriksson 2001:55). I believe that the thesis is of interest for other people since it describes and investigates highly topical subjects. Both the K-project and the IFRS for NPAEs are ongoing projects. Further, I believe that the thesis is of relevance for people interested in the EU's progress in the accounting area.

### 3. Theoretical Framework

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*Firstly, the IFRS for NPAEs is described, secondly, the importance of harmonization in the EU is outlined, thirdly the Euro Directives are explained and finally, the Swedish K-project and two State Inquiries are discussed.*

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#### 3.1 The IFRS for NPAEs

The international standardization process in accounting has principally been led by the IASB. The IASB bases its standards on the Anglo-Saxon Tradition and has been influenced by the standards set by FASB. FASB is the Financial Accounting Standards Board in the US (Smith 2006:76f).

The purpose of the IFRS for NPAEs is to develop a financial reporting standard especially designed for the financial reporting needs of companies that do not have public accountability and are principally publishing their financial statements for users outside the organization (iasb.org (c)). The NPAEs are referred to as small and medium-sized companies in the continuing parts of the thesis. In the Exposure Draft published in 2007 by the IASB small and medium-sized companies are defined as follows:

*“SMEs are entities that:*

*(a) do not have public accountability; and*

*(b) publish general purpose financial statements for external users.*

*Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.*

*1.2 An entity has public accountability if:*

*(a) it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or*

*(b) it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity.*

*1.3 If a publicly accountable entity uses this [draft] standard, its financial statements shall not be described as conforming to the IFRS for SMEs—even if national law or regulation permits or requires this [draft] standard to be used by publicly accountable entities.”*

*(iasb.org (d))*

Full IFRS were developed for existing and potential equity investors in companies in public capital markets. Due to this fact full IFRS contain a lot of rules, implementations and disclosures which are not appropriate for small and medium-sized companies. People who use the financial statements of these companies have other needs than equity investors of the listed companies. Shorter-term cash flows, liquidity and solvency are of greater importance for users of the financial statements of private entities. Full IFRSs are considered to be an unnecessary burden for preparers of financial statements in small and medium-sized companies (iasb.org (c)).

The IFRS have become more detailed and the numbers of countries using them have been growing. This has increased the administrative burden for small and medium-sized companies. The IASB's goal is to design the IFRS for NPAEs considering the needs of the users of financial reports. The Board also needs to consider the cost and benefit of preparing financial statements for the companies (iasb.org (c)).

Some topics are excluded in the IFRS for NPAEs compared to the full IFRS, only the simpler alternative is included, the language is written in less formal English, simplifications are made concerning recognition and the number of disclosures and measurements are reduced (iasb.org (d)). The rules and principles are the same in many areas in full IFRS and the IFRS for NPAEs (kpmg.com (b)). The pervasive principles in the IFRS for NPAEs are understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timelessness and balance between benefit and cost (iasb.org (d)).

Every nation has its own tax legislation and the purpose of establishing a financial report applying the IFRS for NPAEs may differ from the purpose of reporting taxable income. Small and medium-sized companies which will apply the IFRS for NPAEs in their financial statements will probably not comply fully with the national tax legislation. These companies may have to prepare two different financial statements to be able to comply with the IFRS for NPAEs and the national tax legislation. The jurisdictions can do modifications in the tax legislation or tax reports to facilitate for small and medium-sized companies, which are applying the IFRS for NPAEs (iasb.org (d)).

The final Exposure Draft of IASB's IFRS for NPAEs was published in February 2007 and the comment period was over in November the same year. The Exposure Draft is based on the IASB Framework for the Preparation and Presentation of Financial Statements and principles and guidance in full IFRS. Changes and simplifications have been made in consideration to small and medium-sized companies' needs and costs and benefits (iasb.org (e)).

In the Exposure Draft the IASB states that small and medium-sized companies' financial statements should contain information about the company's financial position, performance and cash flows. Providing information about these areas in the financial statement will facilitate the decision-making for many stakeholders (iasb.org (d)).

The IFRS for NPAEs will be updated once every two years via an exposure draft. The Exposure Draft consists of three documents; the draft IFRS for SMEs, implementation guidance and Basis for conclusions. Contrary to the IAS and the IFRS which are organised in order of statement number the IFRS for NPAEs is organised topically. The standard consists of 38 parts and has a glossary. The content of Exposure Draft is outlined below (iasb.org (e)).

Preface
1 Scope
2 Concepts and Pervasive Principles
3 Financial Statement Presentation
4 Balance Sheet
5 Income Statement
6 Statement of Changes in Equity and Statement of Income and Retained Earnings
7 Cash Flow Statement
8 Notes to the Financial Statements
9 Consolidated and Separate Financial Statements
10 Accounting Policies, Estimates and Errors
11 Financial Assets and Financial Liabilities
12 Inventories
13 Investments in Associates
14 Investments in Joint Ventures
15 Investment Property
16 Property, Plant and Equipment
17 Intangible Assets other than Goodwill
18 Business Combinations and Goodwill
19 Leases
20 Provisions and Contingencies
21 Equity
22 Revenue
23 Government Grants
24 Borrowing Costs
25 Share-based Payment
26 Impairment of Non-financial Assets
27 Employee Benefits
28 Income Taxes
29 Financial Reporting in Hyperinflationary Economies
30 Foreign Currency Translation
31 Segment Reporting
32 Events after the End of the Reporting Period
33 Related Party Disclosures
34 Earnings per Share
35 Specialised Industries
36 Discontinued Operations and Assets Held for Sale
37 Interim Financial Reporting
38 Transition to the IFRS for SMEs
Glossary
Derivation Table
Basis for Conclusions (Separate Booklet)
Implementation Guidance: Illustrative Financial Statements and Disclosure Checklist (Separate Booklet)

(iasb.org (e))

### 3.2 Harmonization in the EU

According to the European Commission 99 percent of all European companies are micro, small and medium-sized companies. The EU is trying to facilitate the activity of these companies since they represent a large percentage and are often facing difficulties. Small and medium-sized companies are important both socially and economically in the EU since approximately 65 million people are working in them. These companies are often innovative companies and contribute to entrepreneurship in the union. In the EU small and medium-sized companies are defined as follow (<http://ec.europa.eu> (a)):

Enterprise category	Headcount	Turnover	or	Balance sheet total
medium-sized	< 250	≤ € 50 million		≤ € 43 million
small	< 50	≤ € 10 million		≤ € 10 million
micro	< 10	≤ € 2 million		≤ € 2 million

(<http://ec.europa.eu> (a))

In 1957 the Treaty of Rome was signed by France, Germany, Italy, Belgium, Netherlands and Luxemburg and the year after the European Union was established. France and Germany became the most influent members with a great impact on the accounting regulations. The United Kingdom and Ireland introduced the Anglo-Saxon way of financial reporting and accounting when they joined the union in 1973. The idea of harmonizing the accounting systems and the financial reporting in the European Union arose in the Treaty of Rome (Nobes & Parker 2006:222f).

In 1970 The Common Industrial Policy was approved and it insisted upon the creation of a common capital market and a unified business environment, demanding harmonization of company law and taxation. It was considered necessary to ensure the reliability and the comparability of the financial statements produced by EU companies. The reasons for this were that many companies were operating in several European countries and shareholders and other stakeholders needed protective netting. Another reason was to facilitate the movement of capital. Finally, to enable a fair completion among European companies it is necessary to have the same laws and tax regulations in all member countries (Ibid.).

The EU is constantly trying to harmonize legislation between its member states to implement EU's Four Freedoms. It is necessary to create a common capital market within the union to enable free movement of capital, which is one of the freedoms. All EU companies should be subject to the same laws and taxation to ensure a fair competition on this market. These laws include those concerning accounting and financial reporting (Ibid.).

The EU has principally focused on standardizing the laws concerning listed consolidated companies and a regulation on international accounting standards, the IAS has been adopted. The regulation is meant to enhance quality, transparency and comparability of EU companies' financial reports. All listed EU groups of companies have to follow the IFRS when preparing consolidated accounts. Still there are differences between the implementation of the IFRS in different member states. The harmonization process of consolidated statements produced by



EU companies has been evolving since the end of the 1990s and the international standards set by the IASB have successively gained territory (Nobes & Parker 2006:101f).

A standardized accounting and financial reporting system does not exist among the member states of the EU. There are several accounting systems, types of financial reports and note systems existing in the EU's member states. The UK, Ireland and Netherlands have an investor and shareholder tradition and financial information is mainly published for the market and the stakeholders. Whilst Germany and other countries in the continental part of Europe traditionally produce financial reports for creditors and tax authorities (Nobes & Parker 2006:222f). In the former states of the Soviet Union there is a lack of accounting tradition and during the communist period accounting was reduced to plain book-keeping and its principal purpose was to help planning higher-level budgets (Nobes & Parker 2006:230).

For the present every European country has their own national General Accepted Accounting Principles (GAAP) for small and medium-sized companies and some countries have developed two or three sets of regulation for these types of entities. The situation is similar in the rest of the world (iasb.org (c)).

Charlie McCreevy is the head of the European Commission's department with responsibility for the European Internal Market and services. The department should further the free movement of capital and services and work for the integration of the common European market. The department is charged with implementing a European legal framework in the accounting and auditing sector (<http://ec.europa.eu/> (d)).

The European Commission cooperates with the IASB and is responsible for the compatibility between the Accounting Directives of the EU and the IFRS (<http://ec.europa.eu/> (b)). The Commission is also working to improve the quality, comparability and transparency of financial statements in the EU (<http://ec.europa.eu/> (c)).

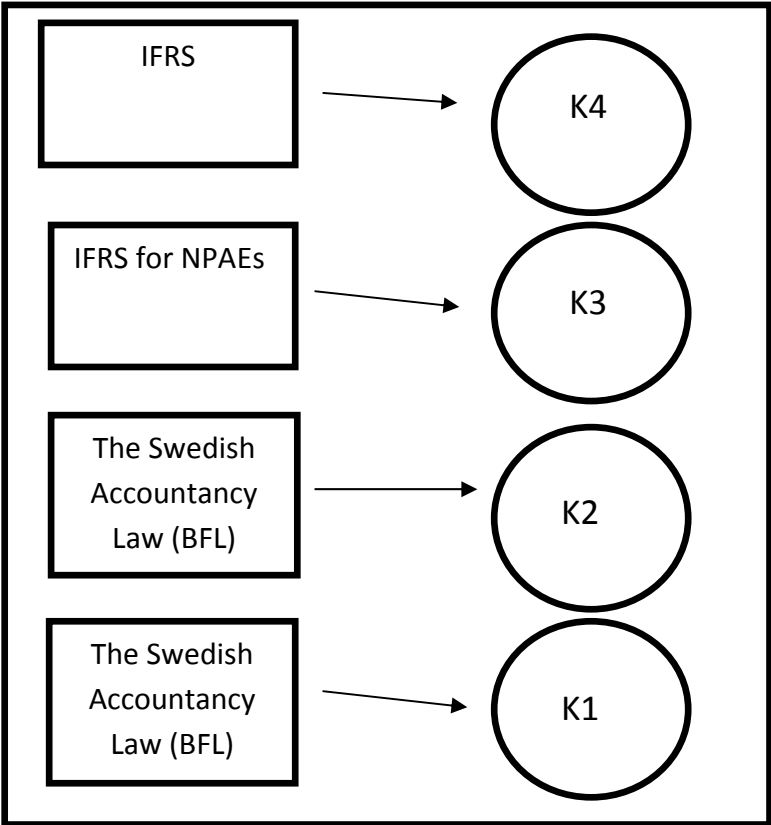
### **3.3 The Euro Directives**

The Fourth and Sixth Euro Directives have been implemented in the "Årsredovisningslagen", the Annual Reporting Law in Sweden. The purpose of the directives is to harmonize the accounting regulation throughout the union. These directives are mainly based on Continental Tradition of accounting (Smith 2006:74). The countries which belong to the Continental Tradition have been influenced by the Anglo-Saxon Tradition during the last decades. The reasons for the change to more Anglo-Saxon practices are several: the creation of multinational enterprises, the quotation of these enterprises on the London Stock Exchange and the New York Stock Exchange, the UK's membership in the EU, an international standardization principally based on the Anglo-Saxon Tradition and the creation of new financial instruments (Smith 2006:76f).

The EU is mainly using directives and regulations to harmonize accounting and company law. The effects a directive has on a specific member state legislation depend on how the countries' authorities choose to legislate in specific questions. The EU sometimes leaves options in the directives and as a consequence company law and accounting differ between European countries (Nobes & Parker 2006:223ff).

### 3.4 The Swedish K-project

The Swedish Accounting Standards Board is an authority, which works under the auspices of the Swedish Ministry of Finance (bfn.se (b)). Every year the board receives a Letter of Regulation from the Ministry of Finance containing the parliament’s resolution about the activity of the board for the present budget year. The Letter of Regulation for budget year 2009 states that the Swedish Accounting Standards Board should act to improve the quality of small and medium-sized companies’ accountancy and financial statements. The Letter also states that the board should act to make the regulation simple and adjusted for the user’s needs (bfn.se (c)).



The Swedish Accounting Standards Board is responsible for the K-project, which has been evolving since 2004. The national accounting standards are about to be reformed. The purpose of the K-project is to simplify the regulation and the standards concerning the accounting and financial reporting for companies. The purpose is also to elaborate separate standards for different categories of companies. The companies will be divided into four different categories named category 1, 2, 3 and 4, shortened K1-K4 (deloitte.com (a)) and the division is based upon type and size of the company. Before the K-project the rules were gathered by fields with one standard for stocks, another one for revenues etc. As the new rules are completed it is possible for enterprises to establish their annual reports applying just one all-embracing standard. The former Swedish Government’s purpose with the K-project was to reduce the administrative cost facing companies (bfn.se (c)).

### 3.4.1 Category 1

Category K1 includes small private manufactures and small partnerships owned by physical persons (deloitte.com). Companies belonging to category K1 must follow 6 chapter 3§ part 2 in the Swedish Accountancy Law (bfn.se (a)). According to the law a company with a yearly turnover of no more than 3 million Swedish crowns and which is not obligated to establish an annual financial statement according to 1 paragraph can choose to establish a simplified annual report following 10§. The simplified annual report should follow paragraphs 4-9 in the Swedish Accountancy Law (BFL 6 chapter 3§ part 2). The K1-regulation contains laws, the general recommendations from the Swedish Accounting Standard Board, comments and examples, which are meant to be guidelines for the users. The regulation has to be easy to understand and follow but at the same time it has to correspond to the demands raised on the accountancy of a smaller company. The result in the financial statement should as far as possible correspond to the result upon which the taxation is based (deloitte.se (a)). The K1-regulation concerning private manufactures has been in force since 2007. The standards for simplified annual report will be outlined in the K1-regulation (bfn.se (a)).

### 3.4.2 Category 2

K2 consists mainly of small joint-stock companies and economic associations. The K2-regulation is voluntary for smaller companies to use if they do not wish to follow the K3-regulation, which is the main regulation. The K2-regulation is easier to apply, e.g. the K2-regulation is mainly based upon the Principle of Prudence and the Purchasing Method. The choices left in the K2-regulation are also fewer and headlines and signs in the accounting statement are given. Only cost-based income statements are allowed and the rules concerning write-downs are simpler (deloitte.com). Companies which are classified as K2-companies are divided into two groups; K2-ÅB and K2-ÅR. Companies belonging to K2-ÅB should follow 6 chapter 3§ part 1 in the Swedish Accountancy Law (bfn.se (a)). The law states that other companies than those referred to in 1§ must end the current accountancy with balancing accounts each financial year, if they do not establish an annual financial statement (BFL 6 kap. 3§ 1 st.). Rules from both the Accountancy Law and the Annual Reporting Law will be applied when ending the financial year with a simplified annual report. The standards for this report will be in the K2-regulation for the simplified annual report. Companies belonging to K2-ÅR must establish an annual financial statement (bfn.se (a)). The K2-ÅR-companies must follow 6 chapter 1§ in the Swedish Accountancy Law, which lays down that companies belonging to one or more of the categories mentioned in the paragraph must each financial year end the accountancy by establishing an annual financial statement and make it public following the directions in the Annual Reporting Law (BFL 6 chapter 1§). The K2-ÅR-regulation is a voluntary regulation, which smaller companies will be able to choose instead of using the K3-regulation. The part of the K2-ÅR-regulation which concerns smaller private joint-stock companies was consolidated in 2008 and it is legal to apply the regulation on annual financial statements established in December 2008 or later. The K2-ÅR-regulation contains some simplifications compared to the K3-regulation; it has general rules with clearly defined limits, leaves fewer choices to the user, demands less information provided in the financial statement and has rules, which are closely connected to the tax legislation (bfn.se (a)).

### **3.4.3 Category 3**

Larger non-listed companies belong to the K3-category and the regulation of this category is the principal regulation in the K-project. K3-companies have to apply the IFRS for NPAEs and the regulation is therefore not described further in this part (deloitte.com).

### **3.4.4 Category 4**

Large listed consolidated enterprises belong to the K4-group and they have to apply full IFRS (deloitte.com (a)). Companies which are classified as K4-companies must follow chapter 7 33§ in the Annual Reporting Law. The law states that other companies than those mentioned in 32§ are allowed to establish their financial statement applying the international accounting standards referred to in Regulation No 1606/2002 of the European Parliament (bfn.se(a)). The standards referred to in the regulation are the IAS and the IFRS (<http://eur-lex.europa.eu/>). Chapter 7 33§ in the Annual Reporting Law makes it possible for non-listed mother companies to choose to establish the group account following the international accounting standards. K4 will contain specific Swedish rules for these companies (bfn.se (a)). There is no connection between accounting and taxation for consolidated companies. In a group of companies the single firms are objects of taxation while the consolidated company has no connection to taxation (Smith 2006:79f).

## **3.5 State inquiries**

The government has set up two state inquiries since the Swedish Accounting Standards Board started the project in 2004. The inquiry named “The connection between accountancy and taxation” or SamRoB presented its final statement in 2008. “Simplified accountancy”, which is the name of the other inquiry presented its partial statement about the project in 2008 and will leave its final statement in 2009. The state inquiries are likely to cause changes in the Swedish taxation and accountancy legislation and because of that an adaption of the regulations in the K-project will be needed. The rules and regulations, which are currently in force, will not be repealed until the most important parts of the K-project are in force (bfn.se (a)). When the K2-regulation for smaller joint stock-companies and the K3-regulation are in force corresponding regulations for other types of associations will be developed (deloitte.com (a)).

## **3.6 Advantages and disadvantages**

### **3.6.1 Harmonization, comparability and quality**

The IFRS for NPAEs will increase the comparability between companies competing in international markets. Further, the quality of financial statements will be enhanced and the transparency will be improved. Different companies’ financial report can be easily compared when the same financial reporting standards are applied (iasb.org (c)).

“The use of IAS/IFRS creates a harmonised global reporting environment” ( Di Petra et al. 2007:32). The comparability and reliability of financial statements of Italian listed companies have been enhanced since the implementation of the IFRS. Expert users find the quality of the information in financial statements based on the IFRS higher than the quality of the information in those statements based on local GAAP in Germany, Swiss and Austrian (Di Pietra et al. 2007:32).

An application of the IFRS for NPAEs in unlisted small and medium-sized companies could enhance the reliability and the comparability of the financial statements of companies operating in the global market and help companies to demonstrate their results better. More and more small and medium-sized companies are competing internationally (Di Pietra et al. 2007:32).

If companies of all sizes were applying the standards set by the IASB when establishing financial reports it would simplify the preparation of group accounts for consolidated companies. Small and medium-sized companies in Germany consider this to be a major advantage of implementing IFRS for NPAEs (Di Pietra et al. 2007:33).

The international network of KPMG member firms support the IFRS for SMEs developed by IASB. According to the network financial reporting of high quality should be possible to achieve for all companies but costs should not exceed benefits then establishing a financial statement. Further KPMG claims that the IFRS for NPAEs will make it easier for small and medium-sized companies to apply the financial reporting standards set by the IASB. Nevertheless, further simplifications are needed in several areas according to KPMG (kpmg.com (b)).

The IFRS are being used in more and more countries across the globe. Some countries have chosen to implement the IFRS as they are, while others have chosen to write national GAAPs based on the IFRS. Listed companies in more than 80 countries are obligated to follow the IFRS and full IFRS are permitted for listed companies in additional 25 countries. Small and medium-sized companies in nearly 30 countries are required to follow the IFRS. Some of the small and medium-sized companies in 20 countries have to apply IFRSs while another 36 countries permit small and medium-sized companies to use these standards. In many countries which are not using the IFRS directly are adapting their national accounting standard to these standards and this means that small and medium-sized companies are being forced to use full IFRS. This is causing problem as many companies of this size cannot bear the cost of complying with full IFRS and do not have the experience required. The IFRS for NPAEs will decrease the administrative burden for these companies and enhance the quality of the financial statements (iasb.org (c)).

It is expensive to develop national accounting standards and in addition many jurisdictions do not have country-specific textbooks, guidance, software and training materials to accomplish national standards. The comparability between companies in a jurisdiction is being hurt as different requirements are interpreted differently. Jurisdiction-specific auditing methodologies have to exist when using national accounting standards. These methodologies could be costly (iasb.org (c)).

### **3.6.2 Financing**

One of the greatest disadvantages with having individual national GAAPs is the lack of comparability in international capital markets. The world's capital markets are becoming more and more integrated and even small and medium-sized companies are affected by the internationalization. There is a need for standardization from many perspectives. Between half and three-quarters of all small and medium-sized companies have bank loans. When the banks make decisions about lending money to companies they rely on the financial statement of the company in question. Banks also rely on the financial statements when establishing terms,

interest rate and monitoring loans for the company which is taking a loan. Many banks are international organizations which are operating across borders and international accounting standards should considerably facilitate their decision making. If the accounting standards are international banks could easily compare and understand different companies' financial statements. International accounting standards facilitate for both companies and banks to operate across borders (iasb.org (c)).

A survey by KPMG and Eachhochschule Münster demonstrates that small and medium-sized companies in Germany have easier access to additional funding since they have begun to apply the IFRS in their financial statements. Despite this survey respondents do not find the easier access to loans important for their own companies. This is in accordance to findings that show that cross-border loans are of less importance for small and medium-sized companies in Germany (Di Pietra et al. 2007:32).

A great number of small and medium-sized companies do not have audited financial statements and lack a clear strategy for communicating with their stakeholders. These companies sporadically publish financial information and the information given is insufficient for decision making. Historically small and medium-sized companies have had difficulties finding creditors for projects even though the projects were creditworthy. Large companies have not faced significant problems accessing funding for projects and this is partly thanks to their audited financial information, which gives the banks credible information. To what extent the creditors rely on the companies' financial statements when taking lending decisions differ both nationally and internationally (Di Pietra et al. 2007:31ff).

The national accounting standards in many countries have been written without any consideration to banks, suppliers, buyers or other external users. According to the IASB this has raised the cost of capital and harmed small and medium-sized companies' access to capital especially in small and developing countries. In many countries these companies are obligated to apply full IFRS and the quality of implementation is often poor. The IFRS for NPAEs will solve these problems, according to the IASB (iasb.org (c)).

### **3.6.3 External users**

Many suppliers want to go through the financial reporting of their buyers before they sell any goods or services on credit. Even buyers are interested in the financial health of the suppliers to know the prospects of a business relation in the future. Standardized accounting standards are needed for both suppliers and buyers to be able to make safer business (iasb.org (c)).

Credit rating agencies welcome the IFRS for NPAEs since developing uniform ratings across border will be easier for them. The World Bank, International Monetary Fund (IMF) and other development institutions and banks base their financial allocations on financial statements. Different national GAAP across the world make a fair understanding and comparison of companies' financial reporting impossible for them. Accounting differences are causing sub-optimal decisions for development institutions and banks. National GAAP for small and medium-sized companies are normally not designed for investment decisions of outside investors. An international standard would facilitate the decision making for external investors (iasb.org (c)).

In the Anglo-Saxon Accounting Tradition there is no connection between the financial reporting standards and the taxation legislation. The write-downs in the financial report do not

have to be equal to the write-downs in the income-tax return form. The write-downs should differ if the write-downs in the income-tax return form are not motivated economically but are allowed due to taxation reasons. According to Smith, the financial reports based on the Anglo-Saxon Tradition meet the market's demand for information in a better way (Smith 2006:75).

### **3.6.4 Costs of implementation**

There is much less guidance provided in the IFRS for NPAEs compared to that of full IFRS. Because of that small and medium-sized companies' financial reports may differ from each other and from large companies' financial reports based on full IFRS, even though the principles are the same in many areas (kpmg.com (b)).

The IFRS for NPAEs could increase the regulation for some types of small and medium-sized companies and the Exposure Draft is more complex than many local GAAP. Many countries will have problems when deciding which companies should apply the IFRS for NPAEs. The national financial reporting standards are often a system of differential reporting and a change to standards set by the IASB for all types of companies could lead to increased regulation for small and medium-sized companies which currently benefit from exemptions in regulations (Di Pietra 2007:35).

One opinion is that large and small family companies which are operating in an international market will benefit from the IFRS for NPAEs while small family companies which are only operating nationally will face problems and costs when applying the IFRS for NPAEs. National GAAP with easier rules would be a better alternative for these companies. It would therefore be useful to divide small and medium-sized companies after their attitude towards external disclosure, the administrative and accountancy competences, their information needs and the number of external stakeholders. The financial statements of small and medium-sized companies are often used as basis for taxation, financial information for potential creditors, investors and for determining dividend payments. These purposes are not a part of the Exposure Draft from the IASB. The purposes of the financial statement mentioned in the Exposure Draft are for example to provide suppliers and customers with information and this is irrelevant for many small and medium-sized companies (Di Pietra 2007:36f).

The accounting options given in the IFRS for NPAEs may save costs for the companies but may also diminish the comparability of financial reports and they could as a consequence be less useful for stakeholders. To evaluate if an accounting option in the standards is economically advantageous for the company it is necessary to evaluate both alternatives. That is both time-consuming and costly (Di Pietra et al. 2007:39).

Empirical surveys demonstrate that the small and medium-sized companies see the costs of changing to the IFRS for NPAEs, the follow-up costs, the complexity of the standards, and the negative impact on taxation as the principal disadvantages of implementing the IFRS for NPAEs. Many companies are concerned that employees' education in the new standards will be both time-consuming and costly (Di Pietra 2007:38).

### 3.6.5 Usefulness

“It is questionable whether entities that are of major economic significance in their home country should be permitted to apply IFRS for NPAEs” (Di Pietra et al. 2007:33).

The definition of small and medium-sized companies in the IASB’s Exposure Draft of IFRS for NPAEs is very broad. One of the disadvantages of using a broad definition is that one standard has to apply to different types of companies. When creating the Exposure Draft the IASB used companies with 50 employees as guideline and assured that the standards were applicable on micro-entities. According to the authors writing “Comments on the IASB’s Exposure Draft ‘IFRS for Small and Medium-Sized Entities’” the IASB focused on larger small and medium-sized companies with more external users or which are operating in an international context. Further the authors of the article claim that the IASB presumes that the financial reporting needs of smaller and larger small and medium-sized companies are similar or even identical. It has been argued that the Exposure Draft is too complicated for micro-companies to apply on their financial statements. A local GAAP may be better suited for micro-companies and their national conditions. Survey respondents in Italy and Poland preferred to use a standard developed locally and with connection to the local tax system than an international standard. Another opinion is that the IFRS for NPAEs should be adapted to micro-entities’ conditions because many countries in the developing world and in the former Soviet Union will implement the IFRS for NPAEs. Developing countries have a lot of small and medium-sized companies and the privatization in the former Soviet countries has increased the number of micro-entities and small and medium-sized companies. (Di Petra et al. 2007:33f). In the former states of the Soviet Union there is a lack of accounting tradition and during the communist period the accounting was reduced to plain book-keeping and its principal, purpose was to help planning higher-level budgets (Nobes & Parker 2006:230). The accounting regulations in these countries do not provide sufficient guidelines for the establishment or financial statements (Di Petra et al. 2007:34).

The IASB uses 50 employees as a guideline in its Exposure Draft for how many employees a typical small and medium-sized company has. KPMG believes that this guideline is not in line with the definition of these companies in the same draft. According to KPMG the definition of a small or medium-sized company in the Exposure Draft indicates a company with more than 50 employees. KPMG’s conclusion is that a guideline with a small or medium-sized company with 50 employees is inexpedient and should be excluded from the standard. KPMG’s opinion is that the IFRS for NPAEs is better suited for small and medium-sized companies with more than 50 employees (kpmg.com (b)). In the Project Update of IFRS for NPAEs published in 2009 the IASB writes that “the Board intends the IFRS for Private Entities to be a stand-alone document for a typical private entity with about 50 employees” (iasb.org (e)). The IFRS for NPAEs will encompass the transactions, events and conditions which are typical to happen to a company of that size. Further, the IASB writes that 50 employees were used as a guideline for Board when determining the standard’s content (iasb.org (e)).

### 3.6.6 The EU’s opinion

The EU Commissioner Charlie McCreevy is responsible for the EU’s internal market and services. McCreevy works to remove the barriers to trade in the EU and to reduce the administrative burden (<http://ec.europa.eu/> (d)). In 2007 McCreevy expressed his opinion as follows:



*“We have repeatedly emphasised that accounting for SMEs must be simple and reflect the nature of the business of small companies. The feedback we have received from Member States, the European Parliament and stakeholders is that the current IASB draft is not simple enough to be applicable for the bulk of SMEs in the EU. At this stage, therefore, I do not intend to propose that the IASB draft be endorsed for application in the EU”.*

*(Di Pietra 2007:34)*

The EU is the largest user of the IFRS and according to McCreevy’s speech 7 May 2009 the EU needs to be more involved in the standard-setting process of IASB (<http://ec.europa.eu> (e)).

The EU Commission did not find the Exposure Draft from the IASB simple enough to apply for small and medium-sized companies in Europe. The Commission suggests that the accounting rules should be even simpler and the administrative burden for small and medium-sized companies should be reduced more. Further the Commission argue that micro-entities should be excluded from applying the accounting directives. Small companies should not be forced to publish their accounts and some of the medium-sized companies should benefit from the same exemptions as small companies do. The EU identifies companies which should be objectives for exemptions in the accounting rules by using quantitative criteria (which can be seen in chapter 3) while the IASB uses qualitative criteria (which also can be seen in chapter 3) (Di Petra 2007:34). The IASB wrote about the difference in the definition of small and medium-sized companies in its Exposure Draft. According to the IASB jurisdictions in many countries or regions have their own definition of small and medium-sized companies and these definitions are often based on quantitative criteria. These criteria could for example consist of employees, revenues and assets. The IASB claims that the term often includes very small companies and that the jurisdictions define the term without consideration to if the company publish their financial statements for external users or not (iasb.org (d)).

According to the authors of “Comments on the IASB’s Exposure Draft ‘IFRS for Small and Medium-Sized Entities’” the European small and medium-sized companies may face practical problems due to the EU’s and the IASB’s different attitudes towards differential reporting. The EU for example uses a quantitative definition of small and medium-sized companies while the IASB uses a qualitative definition (Di Pietra et al.2007:42).

KPMG agrees with the IASB that the regulators or standard setters in each country should decide which companies should apply the IFRS for NPAEs in their jurisdictions (kpmg.com (b)).

### **3.6.7 Resistance**

To make everyone agree upon one accounting system is a difficult issue in many ways. There are cultural, political and economic obstacles that have to be overcome. The accounting system reflects the nation’s culture and a country may not be willing to lose part of its identity. Accounting information is prepared for different reasons and it may be difficult to combine them or choose one of them. Even though changes can be made in legislation it is difficult to solve this problem. The economic obstacle is that it is costly to change accounting system and to agree upon accounting standards (Nobes & Parker 2006:77f). There is likely to be persistence against an implementation of the IFRS for NPAEs in the developed nations.

The UK already has the FRSSE, which is the Financial Reporting Standards for Small Entities and there will probably be an unwillingness to change to IFRS for NPAEs. The uptake of the FRSSE is estimated to be 80 % and is therefore supposed to meet the needs of small companies and their stakeholders (Di Pietra et al. 2007:33).

The authors to the “Comments on the IASB’s Exposure Draft ‘IFRS for Small and Medium-Sized Entities’” argue that the IASB should develop an IFRS for NPAEs but that there should be three levels in the set of financial reporting standards (Di Pietra et al. 2007:30).

### **3.7 The connection between accountancy and taxation**

The Swedish state inquiry “The connection between accountancy and taxation” propose that the connection between accounting and taxation should be eliminated. If the connection between accounting and taxation disappears an implementation of the standards set by the IASB without any modifications will be possible. The inquiry is under consideration and is expected to come into force 2011 (kpmg.se (a)).

## 4. Empirical Research

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*In this chapter the respondents of my interviews will be presented and the responses will be outlined following different areas. These areas are the IFRS for NPAAE, the K-project, the advantages and disadvantages and at last the future.*

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### 4.1 Respondents

#### **Caisa Drefeldt**

Caisa Drefeldt is the director of the accounting section of “FAR SRS”, which is Sweden’s Board of Auditors. The accounting section recruits accounting consultants to Sweden’s Board of Auditors and authorizes them. This section of Sweden’s Board of Auditors also develops standards for accounting consultants’ working process. Drefeldt has also been a member of the Swedish Accounting Standards Board since 2000 and is a member of the IREV board. IREV is a subsidiary to Sweden’s Board of Auditors and is an education company, which has courses in all economic areas. On a European level she is a board member of the European Federation of Accountants and Auditors for Small and Medium-Sized Companies. Drefeldt holds lectures at School of Business, Economics and Law at University of Gothenburg two to three times every year. Drefeldt writes articles in the financial periodicals “Balans” and “Nytt från revisorn” as well, where she is also a member of the editorial committee. After graduating, Drefeldt started to work at a small firm of accountants and then worked at Reveko and became an authorized public accountant in 1984. Drefeldt has worked with both listed and non-listed companies during her accountant career and started teaching in accounting in the end of the 1980’s. Drefeldt became an accounting expert when she earlier worked at Öhrlings Pricewaterhouse Coopers. After that Drefeldt worked as an accounting expert and accountant at KPMG and was responsible for developing a department for qualified accounting issues at the company’s office before she became the director of the accounting section of Sweden’s Board of Auditors (Drefeldt 090422). As a member of the Swedish Accounting Standard Board Drefeldt was one of the persons who decided to divide Swedish companies into four categories according to size and start the K-project. Drefeldt and the other members of the Swedish Accounting Standard Board are still working on the regulation for the different categories (Drefeldt 090422).

#### **Pernilla Lundqvist**

Pernilla Lundqvist works as an accounting specialist at KPMG’s office in Gothenburg and teaches colleagues, clients and students about accounting and accounting regulation. Before she became an accounting specialist Lundqvist also worked with auditing issues. Lundqvist teaches and does research in financial reporting at the School of Business, Economics and Law at University of Gothenburg. Lundqvist is a member of the accounting committee of Sweden’s Board of Auditors (Lundqvist 090422). Lundqvist has participated as a private person and as well as a member of the accounting committee of Sweden’s Board of Auditors both times the K1 and K2-drafts have been under considerations. Lundqvist has followed the Swedish Accounting Standards Board in its work on the K-project. Lundqvist has been teaching accounting consultants, auditors and companies about K1- and K2-regulations since they came into force (Lundqvist 090422).

## **4.2 Responses**

### **4.2.1 The IFRS for NPAEs**

The Swedish Accounting Standards Board could have chosen to implement the IFRSs for NPAEs when it became known that the IASB were working on a modified version of full IFRS for small and medium-sized companies instead of continuing with the K-project (Lundqvist, 090422).

Drefeldt thinks it is favourable for the EU that the IASB is developing international accounting standards for small and medium-sized companies. In that way, the EU does not have to rewrite its Fourth and Sixth Euro Directive and could instead process the IFRS for NPAEs through EFRAG (Drefeldt, 090422). EFRAG is the European Financial Reporting Advisory Group and is a private sector body set up by the European companies which are dominant in the European capital markets. EFRAG is a technical committee which also provides advice to the European Commission on issues related to the application of the IFRS in the EU (efrag.org). The EFRAG collaborates with the IASB and revises each IAS which is published before the standards are processed and admitted in the EU (Drefeldt, 090422).

Drefeldt considers the transparency and comparability between companies to be the greatest advantages of the IFRS for NPAEs. The regulation contains options and the company has to inform the user of the financial report of the choices that have been made in the financial statement. Further Drefeldt finds a global accounting standard for small and medium-sized companies valuable and developing countries, which do not have any functioning accounting system, could gain from the standards set by the IASB (Ibid.).

According to Drefeldt the first draft of the IFRS for NPAEs referred too much to full IFRS and was not a stand-alone document, and her opinion is that the regulation was not adapted enough to small and medium-sized companies' conditions. Drefeldt did not find it appropriate for these companies with a thin written document, which referred to the complex full version of IFRS. If a rule or guidance could not be found in the IFRS for NPAEs, the user was forced to use the rules in full IFRS. In that case, it is often easier for the user to apply the national GAAP instead of the standards set by the IASB (Ibid.).

### **4.2.2 The K-project**

The former government delegated to the Swedish Accounting Standards Board to simplify the regulations for small and medium-sized Swedish companies. Before then the Swedish Accounting Standards Board wrote its standards based upon the recommendations provided by "Redovisningsrådet", which is the Swedish National Financial Management Authority. The recommendations written by the Swedish National Financial Management Authority are meant for listed companies and are often very close to the standards set by IASB. The Swedish Accounting Standard Board must elaborate regulations for all types of associations and still base the regulation on the recommendations from the Swedish National Financial Management Authority. These regulations were too complicated for small and medium-sized companies and both the former government and the board itself wanted to make the regulation simpler (Drefeldt, 090422). Before the K-project there was one standard for each item at the balance sheet and at the income statement. The purpose of the K-project was to develop one regulation for each size of company and abandon the former system with regulation for each

item (Lundqvist, 090422). Because of that, the Swedish Accounting Standards Board discussed and later on decided to change strategy and to divide Swedish companies into four categories according to size and to write a separate regulation for each category. All foundations, banks and financing companies were left outside the K-project. The Swedish Financial Supervisory Authority has the responsibility for the regulation concerning banks and financing companies (Drefeldt, 090422).

The Swedish Accounting Standards Board discovered that the set of accounting rules and regulations which were in force sometimes were like a patchwork quilt and at other times there was no guidance at all in the regulations. The board's opinion is that it should be easy to establish a financial statement and therefore the K1- and the K2-regulations are written for the companies and not for the accountants. The companies should on their own be able to enter in the books and establish the financial statement. The K-project makes it possible for companies to follow one separate regulation and they do not have to look up and go through rules in various regulations. All rules concerning one type of association are gathered in one regulation. The purpose is to diminish the administrative burden for companies (Ibid.).

Each category in the K-project will contain different regulations for different types of associations. All regulations belonging to one category will be based upon the same basis and will therefore be similar. There will be a set of regulations for every type of association in all categories due to differences in the taxation legislation (Ibid.).

The highest category of companies is the K4-category and companies in this category must follow full IFRS. Listed consolidated companies are not subjects for taxation and therefore IFRS could be applied without any adjustments to Swedish tax legislation. Companies applying full IFRS are listed companies, which establish consolidated financial statements or companies which voluntarily choose to apply full IFRS. Full IFRS is principle-based accounting and 'substance over form' is one of these principles (Lundqvist, 090422).

The Swedish Accounting Standards Board began to develop the regulation for category 3 when the second round of consideration on the K2-draft was completed and some adjustment in the regulation had been made. The regulations for category 3 are the main regulations, which means that all companies that are not obligated to apply the regulation of K4 could use the K3-regulation. Permitted companies could voluntarily choose to follow the regulation for K1 or K2 if they want. The regulations for category 1 and 2 are based upon the main regulation (K3) but are more simplified. The Swedish Accounting Standard Board decided to develop the K1 and K2 regulations first even though they are based upon the K3 regulation. According to Drefeldt, it was the right decision because at that time there was a lot of resistance against the IFRS for NPAEs in Sweden. Many considered the IFRS for NPAEs to be too complicated and to include too many references to full IFRS. Since then, the IASB has made changes and improvements in the regulation and the attitudes towards the IFRS for NPAEs have changed in Sweden. The K3-regulation will be based upon the IFRS for NPAEs. The regulation for companies belonging to category 3 will be close to the recommendations written by the Swedish National Financial Management Authority because the council base their recommendations upon the standards set by the IASB (Drefeldt, 090422). According to Lundqvist it has been more logical if the K3-regulation was developed before the K2-regulation, since the latter is based upon the former (Lundqvist 090422). The K3-regulation is principle-based accounting and the same principles which are used in IFRS for NPAEs are applied in the K3-regulation, for example 'Substance over form'. The company should define what are classified as an asset in the financial statement otherwise the expense should be entered as a cost (Drefeldt, 090422). Debts should also be defined when applying this

regulation (Lundqvist, 090422) The K3-regulation is estimated to be completed in 2011 (Drefeldt, 090422).

The Swedish Accounting Standards Board began to develop the K2-regulation in the autumn 2004. This regulation is used voluntarily, however, if one chooses to use it, the regulation must be applied completely. The greatest advantages with applying the K2-regulation is that one is excused from including two pages of accounting principles in the financial report. It has been discussed whether the K2-regulation is against the constitution. When the two drafts of the K2-regulation were under consideration by different authorities the Swedish Accounting Standards Board received a lot of criticism. The Board made some changes in regulation but some rules that had been questioned remained as they were. The argument for this decision is that it is voluntary for companies to apply the regulation of this category. The working-group which developed the regulation for K2 consisted of people from the Swedish Accounting Standards Board and the Swedish National Tax Board. According to Drefeldt there was too much focus on taxation because the Swedish state and the banks were considered to be the only important stakeholders when writing the regulation but changes have been done since then. Drefeldt opinion is that it was important to receive criticism and opinions from the authorities considering the drafts of the K2-regulation to be able to understand what was important to different stakeholder. Companies which choose to apply the regulation of K2 should do this because these rules are simpler than those of K3. Companies with self-created intangible assets are excluded from the K2-category and they must follow the K3-regulation. Contrary to the K3- and K4-regulation the regulation for K2 are based on rules and not on principles. When establishing financial statements following the K2-regulation the accounting is based on fixed rules. The Purchasing Method, the Prudence Principle and the Matching Principle are all elementary in the K2-regulation (Drefeldt, 090422). The Swedish regulations have always been based upon the international standards before the Swedish Accounting Standards Board developed the K2-regulation which is only based upon Swedish view (Lundqvist, 090422).

The Swedish Accounting Standards Board began to develop the regulation for category 1 in 2005 and the regulation came into force in January 2006. Few companies have chosen to follow this regulation, partly because the former rules and regulation still remain in force and partly because the K1-regulation will be revised later on. There is no regulation for partnerships owned by physical persons in the K1-regulation. The reason to this is that it was not possible to combine the tax legislation for these partnerships with the K1-regulation. Partnerships owned by juridical persons must on the other hand establish simplified annual reporting for private manufactures. The accounting in this regulation is based upon fixed rules and not on principles but the Prudence Principle is of importance (Drefeldt, 090422).

A clear example of when differences in the financial reports occur due to whether the accounting is principle-based or based on rules is financial leasing. Companies which follow the K3- or K4-regulations establish principle-based accounting reports while companies which follow the K1- or K2-regulations establish rule-based accounting reports. When applying the regulation of category 3 or 4 financial leasing is entered into the accounts as assets while applying the regulation of category 1 or 2 financial leasing is entered into the accounts as a cost and not as an asset. The reason for this is that the rule-based regulations do not consider financial leasing as something that the company owns while the principle-based regulations consider financial leasing to be an asset bought on hire-purchase (Ibid.).

### 4.2.3 Advantages and disadvantages

According to Drefeldt the advantage with the K-project is that it is easy to use the regulations but she also says that it will take some time for users to learn the new regulation. Drefeldt claims that if a company applies the K2-regulation and follow the simplified rules written for e.g. periodization, the financial reporting will be easier to prepare. The financial reporting process becomes easier at the expense of the accurateness and the Fair View. A company which chooses to apply the K2-regulation will be relieved of many additional items in the income-tax form. The K2-regulation is meant to be close to the Swedish tax legislation (Drefeldt, 090422). An accounting statement established by a company following the K2-regulation will contain fewer pages, less accounting principles and less information (Lundqvist, 090422). The stakeholders are supposed to find the information they need on their own and the demand on the information in their financial report is reduced in the K2-regulation (Drefeldt, 090422).

Lundqvist does not think that the K-project will decrease the administrative burden for companies significantly. Lundqvist also says that few companies have chosen to apply the K1- and the K2-regulations since they have come into force and the consequences of the K-project are therefore hard to know in the present situation (Lundqvist, 090422).

According to Drefeldt the K2-regulation is written in formal language and is hard to understand for a person not used to legal language. It will be necessary to update the K2- and the K3-regulation on regular occasions but the frequency has not yet been decided (Drefeldt, 090422).

Drefeldt claims that the K-project will not affect Swedish companies' competitiveness in the international capital markets (Ibid.). But Lundqvist has another point of view. If a Swedish company which follows the K2-regulation intends to compete in an international market the foreign stakeholders will have difficulties understanding the financial statement of the company. It is for example much easier for an American stakeholder to understand and analyze a financial statement based on the IFRS than a financial statement based on the Swedish K2-regulation. One could of course consider to what extent companies applying the K2-regulation compete in an international environment. But if a K2-company is competing in an international market, it will certainly face difficulties due to the specific national accounting standards. A fair competition in the international market will not be possible as long as the accounting standards vary between countries. The purpose of the IFRS for NPAs is to reach harmonization and to enable competition on equal conditions (Lundqvist, 090422). When trading internationally national accounting standards are a disadvantage and the company has to explain the differences between the national and the international accounting standards. But it is the same for all countries and it is due to the Civil Law and the Taxation Law in each nation. Differences in the accounting between nations exist and they will always exist, according to Drefeldt (Drefeldt, 090422).

Contrary to former regulations, the K-project gathers the rules for the various types of association in one set of rules and regulations and it will therefore be easier to find the rules which are adequate for each type of company (Ibid.). According to Lundqvist, consolidated companies, which consist of associations of different types will still have to apply different regulations. Accounting consultants, accountants, banks, users of financial reports as well have to be familiar with the different regulations since they work with associations of different types. It may be easier for single companies to follow the new regulations but not for all parties concerned, claims Lundqvist (Lundqvist 090422).

Drefeldt claims that the K3-regulation will be identical with the IFRS for NPAEs apart from the issues concerning taxation and the K2-regulation will be a simplified version of the IFRS for NPAEs. The national K-project makes it possible to develop and write regulations which are adapted to specific Swedish environment. Characteristic of Sweden is the connection between the accounting and the taxation (Drefeldt, 090422).

It takes a long time to change regulations when authorities are involved and the K-project has therefore been evolving slowly. Due to the legislation, the Swedish Accounting Standards Board has to write a new standard to be able to leave an old standard, and the new standard needs to be under consideration before it could be approved. This slows down the process of developing new regulations. On the other hand, the process should be slow to be able to make the right decisions (Ibid.).

It will not be possible for developing companies to apply the K2-regulation since they have self-created intangible assets and are therefore forced to apply the K3-regulation. According to Drefeldt, developing companies should establish a more detailed financial statement than is demanded in the K2-regulation. She argues that these types of companies do not have the intention to stay at a small business level and therefore should apply the K3-regulation from the start. The write-down rules and tests in the K2-regulation are very simple and could not be applied on self-created intangible assets because these types of assets are far too sophisticated for this regulation (Ibid.). A company which is applying the K2-regulation and later on expands its activity and grows larger have to change and follow the K3-regulation. According to Lundqvist, there is a huge difference between applying the K2- and the K3-regulations for companies. If the company grows even more the company has to take one step more and apply the K4-regulation. The K-projects categorization of companies makes the growing process unnecessarily difficult for companies (Lundqvist, 090422)

According to Drefeldt the texts in the K-regulations explain more than the texts in the IFRS for NPAEs do. A lot of guidance and examples are provided in the regulations written by the Swedish Accounting Standards Board but the IFRS for NPAEs includes better examples of the format of an annual financial statement (Drefeldt, 090422).

Lundqvist claims that the Swedish Accounting Standards Board has limited resources and cannot undertake such large-scale and costly projects as IASB's IFRS for NPAEs project (Lundqvist, 090422).

According to Lundqvist the K1-regulation is not easier to use than the former regulation and there are more application problems in the K1-regulation than in the former regulation. The K1-regulation could of course be improved claims Lundqvist. The K2-regulation is too simple according to Lundqvist. The accounting is slighted and the tax legislation is dominating the regulation too much. According to Lundqvist the accounting has lost its role in the K2-regulation. The K1- and the K2-regulations have no advantages at all compared to the IFRS for NPAEs, claims Lundqvist, and she says that what is good about the K3-regulation is that it is a translation of the IFRS for NPAEs with some adjustments to Swedish conditions (Ibid.).

Lundqvist finds it hard to see many advantages with having national accounting standards instead of international accounting standards but one advantage of national ones is that the regulation can be written for Swedish conditions. There are a lot of small companies in Sweden and the connection between accounting and taxation is strong (Ibid.).

The IFRS for NPAEs will enable a consistency in the basic accounting principles and standards. Companies of all sizes will apply similar rules since the IFRS or IFRS for NPAEs



will apply for all companies. It will be simple to understand financial statements from different companies since all apply accounting rules based upon the IFRS. The discrepancy between companies will decrease thanks to IFRS for NPAEs, claims Lundqvist (Ibid.).

The IFRS for NPAEs could be too complicated for K2-companies to apply. This is due to the large number of small companies in Sweden and it is not the regulation which is too complicated. Further, the small companies which exist in Sweden are not the types of associations which usually have complicated transactions and they will therefore not be affected (Ibid.).

#### **4.2.4 The future**

Drefeldt does not find it likely that the EU will implement the IFRS for NPAEs in the nearest future and she bases her assumption on the fact that the EU Commissioner Mc Creevy is against the current draft of IFRS for NPAEs. The EU's objective is to modernize the Fourth and Sixth Directive and not to implement IFRS for NPAEs. Questionnaires about how the EU can modernize the fourth and sixth directive have been sent to the member states. The Swedish National Financial Management Authority, which answers the questionnaire in Sweden, suggests that the European Commission should implement the IFRS for NPAEs in the union but the member states should be permitted to simplify the regulation. The Swedish National Financial Management Authority also suggests that the Pooling Method should be prohibited throughout the union (Drefeldt, 090422).

The Swedish National Financial Management Authority which answers the questionnaire about how the EU can modernize the Fourth and Sixth Euro Directive in Sweden, suggests that the European Commission should implement IFRS for NPAEs. If the European Commission agrees upon implementing the IFRS for NPAEs in the EU there will be no Swedish accounting regulation based upon categorization of enterprises in the future since all member states are obligated to follow EU's directives, says Lundqvist. The K3-regulation which is based upon the IFRS for NPAEs will in that case apply on K1- and K2-companies (Lundqvist, 090422).

According to Drefeldt, the Swedish taxation system prevents the K-project and the Swedish Account Legislation from being identical to the IFRS. The Swedish Parliament has the executive power over the taxation legislation and it is sometimes hard to combine the taxation legislation with the accounting rules (Drefeldt,090422). Lundqvist finds the connection between the accounting and the taxation obstructing because the accounting regulation writer must consider the tax legislation (Lundqvist, 090422).

Lundqvist thinks that the K2-regulation will cause problems for the Swedish Accounting Standards Board. She bases her opinion on the fact that the state inquiry "The connection between accountancy and taxation" has turned down the K2-regulation due to constitutional reasons, general advice or good accounting practices must follow the law and the Board is not allowed to exceed its authority. The Board is not allowed to publish binding regulations but the K2-regulation states that companies are obligated to apply it. Still the Board claims that the regulation is voluntary to apply. Lundqvist judges that the Board has exceeded its authority in the K2-regulation which differs from the Annual Reporting Law in some respects and she finds it likely that the K2-regulation will be changed or even disappear in the future. Lundqvist thinks that the K2-regulation will have little effect if at all (Ibid.).

Drefeldt thinks that the current financial crisis will affect the regulations and it may lead to more rigorous regulations in the future mainly for listed-companies but also for smaller companies. Companies which are applying the IFRS for NPAEs and value their properties to market price are for the moment facing a hard situation when they have to value their properties at much lower market prices (Drefeldt, 090422).

Lundqvist thinks that the Swedish Accounting Standards Board should not have undertaken the K-project until we know the outcome of the state inquiries “The connection between accountancy and taxation” and “The abolition of the audit obligation for smaller companies”. The latter suggests that auditing should be compulsory only for four percent of all joint-stock companies. Changes are being made in the Swedish Accountancy Law and in the Annual Reporting Law at the same time as the Fourth and Sixth Euro Directives are about to be changed. Lundqvist claims that the Swedish Accounting Standards Board should have waited for the results of all these changes before starting the K-project. Should the connection between accounting and taxation cease the project has to be undertaken again but the authorities, where the state inquiry has been under consideration, are critical to a separation (Lundqvist, 090422).

## **5. Analysis**

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*The analysis is presented in this chapter and it is based on the theoretical framework and the empirical research. The main and sub questions which were stated in the problem definition will be analysed.*

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### **5.1 The positive and negative consequences of the IFRS for NPAEs**

Firstly the main question will be analysed and secondly the sub questions will be dealt with. The main question is stated as follows:

*What will be the consequences of the IFRS for NPAEs and the K-project?*

Positive consequences of applying the IFRS for NPAEs will be that the comparability between companies which are competing in an international capital market will be enhanced. The same financial reporting standards will be used and companies' financial statements could easily be compared. Banks and other stakeholders who are operating internationally will only have to learn one set of financial reporting standards when countries apply the same standards. Companies which are operating across borders will have easier access to financing when more bank and investors can understand their financial statement. Creditors can base their lending decisions on information which they have a better understanding for, and credit losses can be reduced. The use of the IFRS for NPAEs will improve the transparency of companies (iasb.org (c)).

As can be read in the theoretical framework there is no proper tradition of accounting in many former states of the Soviet Union and the accounting was even reduced to plain book-keeping during the communist period (Nobes & Parker 2006:230). In many developing countries there is no existing accounting system for small and medium-sized companies and the companies are often forced to apply full IFRS. Unfortunately, many companies in these countries cannot afford to establish financial statements based on full IFRS and they also lack the required experience. The IFRS for NPAEs will signify a better quality of the financial statements established by small and medium-sized companies in these countries (Di Pietra et al. 2007:33). The quality in countries with functioning accounting systems could also be improved thanks to the enhanced level of comparability and transparency. The use of IFRS for NPAEs will improve the reliability of financial statements prepared by companies in former Soviet States and the developing world. The financial reporting standards are well-known and it will be easier for foreign users of the financial report to control the truth-worthiness of the report (iasb.org (c)).

As referred to earlier in the thesis the preparation of group accounts will be easier for consolidated companies if all companies in the group apply financial reporting standards written by the same regulator. The principles and rules in full IFRS and the IFRS for NPAEs are the same in many areas, as was described in the previous chapters (Di Pietra et al. 2007:33).

The development of the IFRS for NPAEs enables a global harmonization of financial reporting standards according to both the theoretical framework and the empirical research. Standardization in the accounting area will facilitate international competition and signify a greater market for the companies, the shareholders and the stakeholders (Di Pietra et al. 2007:32).

As was pointed out in the empirical research an international set of financial reporting standards is not adapted to national conditions and problems may arise when national regulations are in conflict with the IFRS (Nobes & Parker 2006:77f).

Even though the IFRS for NPAEs were to be implemented worldwide, differences would remain. These differences arise due to national taxation regulations, options in the IFRS for NPAEs and the fact that national rules apply compulsorily. All this may harm the comparability, transparency and harmonization of small and medium-sized companies' financial reports. In Sweden there is a connection between the accounting and the taxation for small and medium-sized companies and as long as this connection remains the financial statements prepared in Sweden will differ from those prepared in countries without this connection (iasb.org (d)). The national regulators will decide which companies should apply the IFRS for NPAEs in their jurisdiction and this may also harm the comparability and harmonization. This was discussed in the theoretical framework (kpmg.com (b)).

What can be seen in the theoretical framework changing to the IFRS for NPAEs will be expensive for the companies and follow-up costs may also arise. For some companies the switch to the IFRS for NPAEs is expected to have a negative impact on the taxation the company pays. The employees in many companies need education in the new standards, which is costly. Because of this, it will be very costly for some small and medium-sized companies to change to the IFRS for NPAEs from current national financial reporting standards (Di Pietra et al. 2007:38).

The lack of guidance in the IFRS for NPAEs will lead to differences between company's financial statements even though they are all applying the same financial reporting standards. Even the comparability between companies applying full IFRS and those applying the IFRS for NPAEs will be harmed due to insufficient guidance in the latter one (kpmg.com (b)).

As stated in the theoretical framework, it may be difficult to succeed in implementing the financial reporting standards written by the IASB on a national level. People may want to save the national financial reporting standards because of cultural, political and economic reasons. A country may fear to lose part of its culture and political sovereignty. There may be an unwillingness to change the financial reporting standards that have been developed especially for the country in question (Nobes & Parker 2006:77f).

National GAAP may be a better alternative than the IFRS for NPAEs for small family businesses which are operating only in their home country's market. For these companies applying the IFRS for NPAEs may cause costs to exceed benefits. It would have been better to develop different sets of financial reporting standards for small and medium-sized companies according to their need for providing external users with information and their administrative and accountancy competences. Financial Statements of companies of this size are often used as basis for taxation and financial information for banks. In other words, the IFRS for NPAEs may be too complicated for some small and medium-sized companies to apply and a more differential reporting system is needed (Di Pietra et al. 2007:36f).

What can be seen in the theoretical framework and in the empirical research, the IFRS for NPAEs may not be well-suited for smaller small and medium-sized companies, as the IASB used 50 employees as a guideline when developing the standards. Some accounting experts argue that the IFRS for NPAEs should be more adjusted to micro-entities' conditions. Many former Soviet states and developing countries are likely to implement the IFRS for NPAEs and the majority of the companies in these countries are micro-entities (Di Pietra 2007:33f).

As can be seen in the empirical research, differences in the accounting between nations will always exist due to the Civil Laws and the Taxations Law even though countries apply the IFRS for NPAEs (Drefeldt, 090422).

The IFRS for NPAEs is written for all types of small and medium-sized companies. An IFRS for NPAEs divided into three levels should meet the needs of the different small and medium-sized companies better (Di Pietra 2007:30)

## **5.2 Positive and negative consequences of the K-project**

As was stated in the previous chapter, the K-project is divided into categories and each category contains different regulations for different types of associations. Each regulation is written for the specific conditions of each type of association. Positive consequences of applying the K-project are that each regulations is more adapted to the company's needs and is therefore easy for the company to apply. The K-project's regulations are also developed for Swedish circumstances and the regulators did not have to consider other countries' circumstances. The connection between accounting and taxation in Sweden was one of the characteristics of Sweden that the regulators could pay attention to when writing the regulations (Drefeldt, 090422).

As can be found in the empirical research positive consequences of applying the K1 and K2-regulation of the K-project are that the preparation of financial reports will be easier because of fewer accounting principles and less information required than in the IFRS for NPAEs. The report based on the K1 and K2-regulations also comprises fewer pages. A small and medium-sized company applying these regulations will also be relieved of many additional items in the income tax form. What can further be found in the empirical research is that there is less demand on the company to provide the stakeholders with information in their financial reports. More responsibility is put on the user of the financial report to find information about the company. This is a positive consequence for the companies but for some stakeholder it may be considered as a negative consequence of the K-project (Drefeldt, 090422).

Negative consequences of applying the K-project occur if the company wants to operate in an international market. As can be read in the empirical research, foreign stakeholders will face problems understanding the financial report of the Swedish company. The difficulties understanding the financial report may prevent potential investors from investing, potential creditors from lending money and potential shareholders from buying. The national K-project may harm Swedish companies' competitiveness when competing internationally (Lundqvist, 090422).

As can be seen in the empirical research implementing the K-project can have negative consequences for growing companies as they have to change regulation during the growing process. A company using the K1-regulation may first change to the K2-regulation and later on change once more to the K3-regulation. This can be both time-consuming and costly for the company in question (Lundqvist, 090422).

As was stated in the empirical research, the K1- and K2-regulations may be too simple and too much dominated by the Swedish tax legislation. The financial statement is not as detailed as necessary (Lundqvist, 090422).

A negative consequence of implementing the K-project for consolidated companies is that the preparation of financial statements will be harder. Consolidated companies usually consist of

associations of different types and they apply different regulations in the K-project. This was discussed in the previous chapter. The stakeholders also have to know the differences in the regulations when companies apply the regulations of the K-project (Lundqvist, 090422).

### 5.3 Analysis of sub questions

The sub questions will now be analysed and they are stated as follows:

- *Will there be a future for the K-project?*
- *Will the EU implement the IFRS for NPAEs?*

The two Swedish state inquiries “The connection between accountancy and taxation” and “Simplified accountancy” are likely to cause changes in the Swedish taxation and accountancy legislation. If that happens, adjustments and changes in the K-project will be needed (bfn.se (a)). As long as the connection between accountancy and taxation exists, national accounting regulations written with consideration to Swedish conditions are needed (Drefeldt, 090422). The state inquiry has so far been critical towards a separation of taxation and financial reporting. The state inquiry, “The abolition of the audit obligation for smaller companies”, may also have impacts on the K-project (Lundqvist, 090422). There could be a resistance and unwillingness to implement the IFRS for NPAEs for all small and medium-sized companies in Sweden. There are often cultural, political and economic obstacles that need to be overcome. The K-project may be considered to meet the needs of the companies and their stakeholders, and implementing the IFRS for NPAEs could be seen as an unnecessary burden (Nobes & Parker 2006:77f).

As can be seen in the theoretical framework, the EU is trying to facilitate the activity of European small and medium-sized companies since they represent 99 percent of all companies in the union. These companies are important both economically and socially and they provide employment for approximately 65 million people (<http://ec.europa.eu> (a)). The idea of standardizing the financial reporting standards in the union arose in the Treaty of Rome in 1957. The Common Industry Policy was signed in 1970 and it insisted upon the creation of a common capital market. To enable a common market and the free movement of capital common financial reporting standards were considered needed. Stakeholders of companies operating in several European countries also needed protection and the companies should also be able to compete on equal conditions (Nobes & Parker 2006:222f). The EU has principally focused on harmonizing the financial reporting standards for consolidated companies and the IFRS has been implemented. All companies which are not using the IFRS apply national GAAP (Nobes & Parker 2006:101f). The Fourth and Sixth Euro Directives have been used to harmonize the accounting regulation in the union. The directives are mainly based on the Continental Accounting Tradition but all European countries have been influenced by the Anglo-Saxon Accounting Tradition the last decades. The reasons for using more Anglo-Saxon’s accounting practices are several, for example the origin of multinational enterprises, the quotation of these on the London and New York Stock Exchange and growing acceptance for Anglo-Saxon reporting standards (Smith 2006:76f). The department of the European Commission which Charlie McCreevy is head of is responsible for implementing a common financial reporting standard in the union (<http://ec.europa.eu/> (d)). The EU Commissioner McCreevy did not find the IASB’s Exposure Draft of IFRS for Small and Medium-Sized Companies simple enough and claimed that he was against an implementation of the Exposure Draft. Nor did the EU Commission find the Exposure Draft simple enough (Di Pietra 2006:34). As can be seen in both the theoretical framework and the empirical

research, problems may appear for small and medium-sized companies due to differences in the definition of them in the EU and in the IFRS for NPAEs if the EU decides to implement the IFRS for NPAEs. In the EU a quantitative definition is used while the definition in the IFRS for NPAE is qualitative (Di Pietra 2006:42). The IASB claims that the national regulators could determine which companies should apply the IFRS for NPAEs (kpmg.com (b)). As can be read in the empirical research, it is possible for the EU to process the IFRS for NPAEs through the EFRAG and then implement the standards in the union. Alternatively, the EU has to rewrite and modernize the Fourth and Sixth Euro Directive to attain improved harmonization in the accounting area. As can be found in the empirical research, the EU's objective is to modernize the Fourth and Sixth Euro Directives and not to implement the IFRS for NPAEs. Sweden's Board of Auditors suggests that the IFRS for NPAEs should be implemented in the EU (Drefeldt, 090422).

## 6. Concluding Discussion

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*In this chapter the concluding discussion is presented. Firstly, the main question at issue and secondly, the sub questions at issue will be answered by drawing conclusions from the analysis in the previous chapter.*

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The main question is stated as follows:

*What will be the consequences of the IFRS for NPAEs and the K-project?*

The IFRS for NPAEs consists of one regulation which applies to all small and medium-sized companies. A positive consequence of the IFRS for NPAEs is that the preparation of group accounts will be easier if the single companies apply standards set by the same regulator which are based on the same principles. Further, the IFRS for NPAEs will facilitate matters for users of financial statements since all companies apply the same financial reporting standards. A negative consequence is that the regulation applies to a broad range of companies and is not adapted to the specific conditions of one type of association. The K-project consists of four categories and each category includes several regulations. Each regulation is designed for the circumstances of a specific type of company. A positive consequence of this is that companies do not have to comply with regulations that are too complicated and too costly for their organization. A negative consequence is that companies belonging to a group apply different regulations and the preparation of group account becomes difficult. Stakeholders, banks and auditors must know all sets of regulations and the differences between them to be able to make the right decisions. The IFRS for NPAEs is an international set of financial reporting standards and the positive consequences of that are that it contributes to harmonization, comparability and transparency in the accounting area worldwide. A negative consequence of the IFRS for NPAEs is that the standards are not adapted to national circumstances, for example if there is a connection between the accounting and the taxation. Even though some parts are identical to the IFRS for NPAEs, the K-project is a Swedish set of financial reporting standards, and a positive consequence is that the standards are written considering Swedish conditions. The negative consequences of implementing the K-project are that it prevents an international harmonization, comparability and transparency in the accounting area.

The sub questions will now be answered and they are stated as follows:

- *Will there be a future for the K-project?*

The state inquiry “The connection between accountancy and taxation”, may lead to changes in the Swedish tax legislation if the inquiry agrees upon a disconnection. A decision like that could lead to the disappearance of the K1- and K2-regulations in the K-project as they are based on the connection between taxation and accountancy in Sweden. The K3-regulation, which is the IFRS for NPAEs with adjustment to taxation, would be identical to the original version developed by the IASB. In other words, if the connection between accountancy and taxation will cease, the K-project is likely to become identical to the IFRS for NPAEs. The K-project is likely to be in force in Sweden as long as the connection remains.

If the EU decides to implement the IFRS for NPAEs, a Euro Directive could force all member states to apply the standards. If that happens, the K1- and K2-regulation of the K-



project would become useless. Even if the EU not should force their members to apply the IFRS for NPAEs, it would be hard for Sweden not to do so if the other member states decide to apply the IFRS for NPAEs.

- *Will the EU implement the IFRS for NPAEs?*

An implementation of the IFRS for NPAEs should help the EU to harmonize the financial reporting standards in the union. If the IFRS for NPAEs were to be applied, the transparency, reliability and comparability of the financial reports prepared by European companies would improve. Implementing the IFRS for NPAEs should save both money and time for the EU as it does not have to develop its own financial reporting standards and rewrite the Fourth and Sixth Euro Directives. Applying the IFRS for NPAEs should also lead to consistency with non-European countries' financial reports. The IFRS for NPAEs could further the process of creating a common capital market, the free movement of capital, equal competing conditions for the companies and work as a protective-netting for the stakeholders. The different definitions of small and medium-sized companies in the EU and the IFRS for NPAEs could cause problems but according to the IASB, it is up to the jurisdictions to decide which companies should apply the IFRS for NPAEs. If more member states than Sweden suggest that the EU should implement the IFRS for NPAEs it is possible that the EU will do so but as things are at the present moment an implementation of the standards set by IASB in a near future seems unlikely. The Exposure Draft of the IFRS for NPAEs was subject to an immense criticism from the European Commission.

## **Suggestions for Further Research**

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It could be interesting to compare the national K-project with the IFRS for NPAEs when both the financial reporting standards will be in force. To investigate the impacts the standards will have on the financial statements of small and medium-sized companies and the advantages and disadvantages people will find with applying the regulations.

It could also be interesting to compare the IFRS for NPAEs with another national financial reporting standard than Sweden's. The FRSSE, the Financial Reporting Standard for Smaller Entities in the UK could for example be compared to the IFRS for NPAEs.

A third suggestion for further research is to examine whether the quality and the comparability of small and medium-sized companies' financial reports will have increased after the implementation of the IFRS for NPAEs.

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