



UNIVERSITY OF GOTHENBURG  
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Master Degree Project in Accounting

## **Rules- or Principles-based Accounting Frameworks?**

A text analysis of the K2 and K3 frameworks

Anna Dirhammar and Linnéa Karlsson

Supervisor: Jan Marton, Emmeli Runesson and Markus Rudin  
Master Degree Project No. 2015:20  
Graduate School



## **Acknowledgements**

First of all, we would like to thank our supervisors Jan Marton, Emmeli Runesson and Markus Rudin for their support and commitment throughout this process. We have been highly motivated by their interest in our choice of research area.

We would also like to express our thanks to the opponents group, especially Sandra Svensson, Mattias Wikström, Anton Svanå and Carl Jarkvist for constructive feedback during the seminars.

Thank you!

Gothenburg, May 22<sup>th</sup> 2015

Anna Dirhammar

Linnéa Karlsson

## **Abstract**

**Title:** Rules-or principles-based accounting frameworks? A text analysis of the K2 and K3 frameworks.

**Background and research problem:** Accounting quality and accounting scandals may both be affected by the formulation of standards. Recently, the international debate regarding classification of frameworks has received major focus in Sweden as a result of the implementation of K2 and K3. BFN refers to K2 as being a rules-based framework, meanwhile K3 is stated to be principles-based. Several researchers have criticized BFN's statement about K2 being rules-based and K3 being principles-based. The debate requires clear definitions of rules- and principles-based characteristics. Therefore, seeking to classify accounting frameworks may increase the understanding of the most suitable adoption of frameworks.

**Purpose:** The primary purpose of this study is to investigate the rules-and principles-based characteristics within K2 and K3 in order to enable classification. Also, the study contributes by the development of an index model that can be used in the classification of accounting frameworks.

**Index model:** Seven parameters are identified from literature and used as a tool to collect data in terms of indications of rules- and principles-based characteristics. The parameters serves as a base for the construction of an index used to define the frameworks as rules- or principles-based.

**Methodology/method:** The study includes elements of both quantitative and qualitative methods, combining the development of a numerical index with a text analysis of the frameworks in order to attain increased understanding. The empirical data is gathered with respect to literature and thereafter analyzed in order to receive the results.

**Findings and conclusion:** The study shows contradictory results in terms of providing different results depending on the investigated parameter. The fact that different results are given with respect to different parameters indicates that K2 is not being entirely rules-based and K3 not entirely principles-based. Therefore, the results of this study show that the classification of K2 and K3 as either rules- or principles-based is complex and not as straightforward as stated by BFN.

**Future research:** Suggestions for future research involves further investigation of defining accounting frameworks as rules- or principles-based by using the developed index model. We suggest future studies to include investigation of other accounting frameworks such as IFRS and US GAAP.

**Key words:** *Rules-based, Principles-based, Accounting frameworks, K2, K3, Index model*

## List of abbreviations

<i>BFL</i>	The Swedish accounting law/ Bookkeeping act
<i>BFN</i>	Swedish Accounting Standards Board
<i>BFNAR</i>	Swedish Accounting Standards Board General Advice
<i>FASB</i>	Financial Accounting Standards Board
<i>GAAP</i>	General Accepted Accounting Principles
<i>IASB</i>	International Accounting Standards Board
<i>IFRS</i>	International Financial Reporting Standards
<i>RR</i>	Swedish Accounting Standards Council
<i>SEC</i>	Security and exchange commission
<i>SME</i>	Small and medium enterprises
<i>US GAAP</i>	US General Accepted Accounting Principles
<i>ÅRL</i>	The Swedish annual accounts act

## Table of contents

<b>1. INTRODUCTION</b> .....	<b>1</b>
1.1 BACKGROUND.....	1
1.2 RESEARCH PROBLEM.....	2
1.3 CONTRIBUTIONS.....	4
1.4 RESEARCH QUESTION.....	4
1.5 PURPOSE.....	4
1.6 OUTLINE OF THE STUDY.....	5
1.7 DELIMITATIONS.....	5
<b>2. FRAME OF REFERENCE</b> .....	<b>6</b>
2.1 THE K-PROJECT.....	6
2.1.1 K2.....	7
2.1.2 K3.....	7
2.1.3 Differences between K2 and K3.....	7
2.2 LITERATURE REVIEW.....	8
2.2.1 Accounting principles.....	8
2.2.2 Definitions of rules and principles.....	8
2.2.3 Definitions of rules- and principles-based frameworks.....	9
2.2.4 The principles versus rules debate.....	11
2.2.5 The issue of classification.....	12
<b>3. INDEX MODEL</b> .....	<b>14</b>
3.1 CONSTRUCTION OF INDEX MODEL.....	14
3.2 REVIEW OF PARAMETERS.....	15
3.2.1 Possibilities.....	15
3.2.2 Exceptions.....	16
3.2.3 Examples.....	17
3.2.4 Conceptual frameworks.....	17
3.2.5 Guidance.....	17
3.2.6 Judgment.....	19
<b>4. METHOD</b> .....	<b>20</b>
4.1 RESEARCH APPROACH.....	20
4.1.1 Qualitative approach.....	20
4.1.2 Methodology.....	20
4.2 USE OF INDICES.....	21
4.3 DATA COLLECTION.....	22
4.4 LIMITATIONS.....	23
4.5 METHOD DISCUSSION.....	23
<b>5. EMPIRICAL FINDINGS AND ANALYSIS</b> .....	<b>25</b>
5.1 PART 1.....	25
5.2 PART 2.....	29
5.3 PART 3.....	30
5.4 ADDITIONAL ANALYSIS.....	33
<b>6. CONCLUDING REMARKS</b> .....	<b>35</b>
6.1 CONCLUDING DISCUSSION.....	35
6.2 SUGGESTION FOR FUTURE RESEARCH.....	37
<b>LIST OF REFERENCES</b> .....	<b>38</b>

**APPENDICES.....43**  
APPENDIX 1 .....43  
APPENDIX 2 .....44  
APPENDIX 3 .....45

# 1. Introduction

## 1.1 Background

In the history of accounting there are two long established civil law traditions, the Anglo-Saxon tradition and the Continental tradition. The reason for the development of different traditions derives from differences between countries regarding legal systems and financial sectors. The legal system derived from the Anglo-Saxon tradition is characterized by accounting guidelines provided by standard setters. The Continental tradition on the other hand, derives from company law and contains rules designed to fit all types of situations (Alexander, Britton & Jorissen, 2011). In general, Great Britain, Ireland, The Netherlands and the U.S. are categorized as being part of the Anglo-Saxon accounting tradition. The remaining countries in Western Europe are part of the Continental accounting tradition. Furthermore, the civil law accounting traditions became the foundation of the rules- and principles-based accounting concepts. Principles-based accounting emerged from the Anglo-Saxon tradition and relies on accounting bodies and on accounting principles such as the principle of "true and fair view". On the other hand, rules-based accounting frameworks and concepts are based on the Continental tradition. Therefore, rules-based frameworks rely on companies complying with detailed rules and written law in order to achieve good quality accounting (Smith, 2006).

Within the area of accounting, there are two major standard setters; the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). FASB, the major standard setter in the U.S., is responsible for developing US Generally Accepted Accounting Principles (US GAAP). However, even though the U.S. is part of the Anglo-Saxon tradition, US GAAP is considered to be rules-based (Tweedie & Seidenstein, 2004). Nobes and Parker (2006) maintain that the reason for this is economic and political events such as the financial crisis during the 1930's, resulting in the establishment of the Securities and Exchange Commission (SEC). SEC commanded U.S. companies to provide extensive financial disclosures, leading to a rules-based accounting system. The major standard setter in Europe, the International Accounting Standards Board (IASB), is the institution responsible for developing International Financial Reporting Standards (IFRS), generally considered to be principles-based (Johansson, 2010). IASB has become the major global standard setter and IFRS is today required or permitted in 120 countries or reporting jurisdictions (IFRS, 2015). IASB and FASB cooperate in the development of IFRS and US GAAP and strive for the common goal to provide harmonization in terms of homogenous standards characterized by the Anglo-Saxon accounting tradition. This in turn has the purpose to eliminate accounting differences between companies and countries (FASB, 2013).

The last few decades have implicated more globalized financial markets and increased international trade, which in turn has increased the number of multinational enterprises. Moreover, globalization has increased the need for harmonization since the accounting



standards in such case contributes to improved comparability between companies and countries (Nobes & Parker, 2006). The importance of comparability relates to the debate regarding the most preferable type of framework in terms of rules- or principles-based standards. The debate started in the beginning of the 21<sup>st</sup> century when some of the greatest accounting scandals such as Enron occurred (Wüstemann & Wüstemann, 2010). Thus, standards must be constructed in a way that allows comparison of financial reports between different companies. Also, standards and accounting must serve the purpose to contribute to a true and fair view of companies' financial positions (Thorell & Edenhammar, 2003).

Regarding regulation, the Swedish governmental expert body, Bokföringsnämnden (BFN), has the main objective to develop Swedish generally accepted accounting principles (BFN, 2015a). Moreover, Årsredovisingslagen (ÅRL) (SFS 1995:1554) and partly Bokföringslagen (BFL) (SFS 1999:1078) have for the last few decades regulated Swedish accounting. However, "Bokföringsnämndens allmänna råd" (BFNAR) and "Redovisningsrådets Rekommendationer" (RR) have as well had a major impact on the area of accounting. As a result of the EU regulations of IFRS in 2005, all listed companies in Europe had to start complying with the international framework of regulations. The international regulations made RR partly unusable; therefore BFN compiled new frameworks within the K-project, with the purpose of covering all Swedish companies (Drefeldt & Törning, 2012). In 2004, BFN started to develop four new frameworks named K1-K4, designed to function as a simplification of earlier frameworks that provided rules for each area. The intention of the K-project is to increase the comparability across borders and to make Swedish accounting standards more similar and comparable to IFRS. The K-frameworks specify how the current record of accounting should be performed and finally end up in a closing of accounts (BFN, 2015b; BFN, 2015c).

## 1.2 Research problem

According to SEC (2010), the usage of either rules- or principles-based standards may have large effects on accounting quality since differences in accounting and structuring of accounting frameworks might impede stakeholders in their evaluation of company performance. Therefore, the structure of frameworks does not only affect the preparers of financial information but also all other stakeholders such as investors when making investment decisions. Also, Hronsky and Houghton (2001) provide evidence for wording in accounting standards having impact on the aggressiveness in financial reporting. The authors state that principles-based standards have decreasing effects on financial manipulation, being more effective in clarifying the meaning of prescriptions. Thus, such standards are more likely to be perceived and interpreted as intended.

In relation to the effects of different types of accounting standards, Nobes and Parker (2006) state that before the collapse of Enron, US GAAP were considered as having the most rigorous and best accounting standards. However, after the collapse of Enron, the opinion of the US GAAP drastically changed. Countries outside the U.S. started to consider the US GAAP as one of the major reasons for accounting scandals. The US GAAP is considered as

having both strengths and weaknesses regarding the framing of regulations. As mentioned earlier, SEC requires U.S. firms to provide extensive disclosures and therefore US GAAP includes the most detailed prescriptions in the world (Nobes & Parker, 2006). The strength of strict rules relates to the financial disclosures becoming more considerable. The weaknesses on the other hand, relate to the incentives of creating transactions designed to avoid specific rules. However, the results of accounting scandals have been debated in the U.S. and the benefits and merits of international standards and a principles-based approach have been increasingly emphasized. Therefore, policy-makers in the U.S. are nowadays required by the Sarbanes-Oxley Act to seriously consider a principles-based approach and international convergence (Dewing & Russell, 2004).

Recently, the international debate regarding classification of frameworks has received major focus in Sweden as a result of the implementation of K2 and K3 (Törning, 2013). BFN refers to K2 as being a rules-based framework, meanwhile K3 is stated to be principles-based (BFN 2012:1; BFN 2008:1; BFN, 2015b). However, several researchers have criticized BFN's statement about K2 being rules-based and K3 being principles-based. For instance, Törning (2013) finds such statement to be a large simplification, comparable to the simplification of stating the IFRS to be principles-based and the US GAAP to be rules-based. Regardless of what accounting framework that is being debated, to classify it as either rules- or principles-based would be to simplify the reality. Hence, all frameworks mentioned above contain a mix of both principles and rules. Thus, the K2 and K3 frameworks are based on some general principles provided by ÅRL, both including some level of rules. Additionally, the author stresses the importance of knowing the rules-based and principles-based components, in order to identify the possibilities for interpretation and judgment. Also, Nelson (2003) criticizes the way of labeling standards as either rules- or principles based. He claims that labeling standards as rules - or principles-based is to simplify reality since rules have their basis in principles that are more or less rules-based. Thus, there are no refined rules- or principles-based accounting frameworks.

There are different opinions about whether or not accounting frameworks can be classified as either rules- or principles-based. Johansson (2010) refers to the IFRS as being principles-based and Tweedie and Seidenstein (2004) consider the US GAAP to be rules-based. On the other hand, Törning (2013) claims that standards cannot be classified as either entirely rules- or principles-based. Thus, if reality is not black or white as suggested by Johansson (2010) and Tweedie and Seidenstein (2004) but rather in line with Törning (2013), the impact of specific types of frameworks on accounting quality would be more difficult to determine. That is, if accounting frameworks include a mix of rules- and principles-based characteristics, the most preferable type of framework would be difficult to distinguish. Hence, the disagreement among researchers and practitioners in relation to classification of frameworks opens up for a debate, making the area of labeling frameworks relevant to investigate. To conclude, seeking to classify frameworks may increase the understanding of the most suitable adoption of frameworks (Dennis, 2008).

### **1.3 Contributions**

In the literature review, studies were found comparing the two frameworks to each other and to other frameworks such as IFRS for SME, FRS and FRF for SME (Bennett, Bradbury & Prangnell, 2006). Also, a great number of studies attempting to define rules- and principles-based standards, in order to evaluate and determine which type that is most suitable, were found (Wüstemann & Wüstemann, 2010; Alexander & Jermakowicz, 2006). Additionally, the effects of using rules- or principles-based standards are covered in the literature (Agoglia, Doupnik & Tsakumis, 2011). However, no study that investigates and classifies chosen items in K2 and K3 by using a text analysis was found. Therefore, the study aims to fill this gap.

Regardless the same foundation of law, BFN (BFNAR, 2008:1; BFNAR, 2012:1) claims the K2 and K3 frameworks to be different in the context of rules- and principles-based characteristics, making a text analysis of K2 and K3 contributive. Furthermore, based on the criticism concerning labeling of standards (Törning, 2013; Nelson, 2003), this study contributes by questioning the leading standard setter in Sweden in its classification of frameworks. If BFN's statement about K2 being rules-based and K3 being principles-based shows to be incorrect or misleading, its reliability as the only expert body might be questioned. Therefore, the study is focused on investigating BFN's statement of the K2 framework being rules-based and the K3 framework being principles-based. However, labels may be considered as important in some specific contexts. For instance, labeling of standards may help comparing and generalizing frameworks and to facilitate for researchers to understand specific studies. Therefore, the study contributes to increased understanding of K2 and K3 by classification, conducting the intellectual debate regarding rules- and principles-based standards.

Furthermore, an index model is developed in order to facilitate for standard setters and researchers in the process of classification of accounting frameworks. That is, as Dennis (2008) maintains, in order to enable investigations and studies about the most beneficial type of frameworks, definitions of rules-based and principles-based concepts must be clarified. Therefore, this study contributes to future research by providing an index model helpful when attempting to classify frameworks as either rules- or principles-based. Also, the index model can be used in the classification of international accounting frameworks since it is based on objective research regarding definitions of rules and principles.

### **1.4 Research question**

To what extent is the K2 framework rules-based and the K3 framework principles-based?

### **1.5 Purpose**

The primary purpose of this study is to investigate the rules-based and principles-based characteristics within the K2 and K3 frameworks in order to enable classification. The study therefore aims to increase the understanding of the two frameworks and to investigate to what extent K2 is being rules-based and K3 is being principles-based. Also, the study aims to

provide an index model in order to facilitate the classification of the frameworks. Therefore, the purpose of this study includes the contribution of an index model as a method of classification of accounting frameworks.

## **1.6 Outline of the study**

The following parts of the study starts with a section presenting the theoretical framework. Thereafter, the index model and the choice of method are presented followed by the empirical data gathered from the K2 and K3 frameworks. The empirics are separated into sub sections presenting the relevant items, integrated with an ongoing analysis. That is, there is not a detached section containing an analysis since the analysis is combined with the empirics. Finally, the report ends up in a concluding discussion where the research question is answered, followed by a section with suggestions for future research.

## **1.7 Delimitations**

The study is delimited to only investigate the K2 and K3 frameworks, excluding items seen as irrelevant for this type of investigation. That is, only items that could be classified as either rules- or principles-based are included in the investigation. Furthermore, there are two K2 frameworks, one regarding limited companies and one regarding co-operative societies. The study is delimited to only investigate the K2 framework regarding limited companies. Moreover, the study is delimited to items that regard measurement issues. Also, only items comparable between the frameworks are included in the investigation. Thus, the study does not aim for generalization of the complete frameworks but rather to classify those parts including measurement issues.

All the reappearing parameters within the theoretical framework, related to rules- and principles-based characteristics, have been included in the study. However, two parameters found in the literature review trying to define rules- and principles-based frameworks, have not been considered in the index model. That is, “verboseness” and “complexity” have not been taken into account since there are disagreements whether or not these parameters reflect a rules- or principles-based standard. For instance, US GAAP is considered as rules-based, containing a high level of complexity and words (Tweedie & Seidenstein, 2004). However, other continental accounting frameworks, claimed to be rules-based, are based on legal objectives and are therefore less verbose compared to IFRS or other principles-based frameworks (BFNAR 2008:1). Therefore, due to the ambiguity, “verboseness” and “complexity” were excluded from the index model.

## 2. Frame of Reference

This section includes a critical analysis of relevant literature within the chosen area of research. It includes facts about the K2 and K3 frameworks, identification of core literature, definitions and main theories. Furthermore, the section describes rules- and principles-based norms and provides clear definitions of the concepts “rule” and “principle”. Finally, a discussion concerning rules- and principles-based approaches in the context of standard setting is carried out.

### 2.1 The K-project

The purpose of the K-project is to divide Swedish companies, based on size and form, into four different categories. That is, the K-frameworks should only include rules relevant for each category of firms. Moreover, non-profit associations and registered faith communities may apply K1. Small companies on the other hand, defined as firms that do not fulfill the criteria for being larger companies, have the choice of applying K2 or K3. Finally, large companies are firms fulfilling at least two of three following criteria:

1. A firm’s average number of employees amounts to more than 50 during each of the two last fiscal years.
2. A firm’s balance sheet total amounts to more than 40 million SEK for each of the two last fiscal years.
3. A firm’s net sales amounts to more than 80 million SEK for each of the two last fiscal years.

Large companies should apply K3 while large companies preparing annual reports in accordance with IAS/IFRS must apply K4, although K4 is not yet compiled by BFN. Thus, large companies, limited companies and cooperative societies with fiscal years starting 2014, must comply with a suitable K-framework mentioned above (BFN, 2015c). The main reason for developing the K-frameworks is to simplify the already existing frameworks and to provide rules suitable for each area and type of company (BFN, 2015d).

The K-frameworks are constructed in chapters including legal text, general advice, comments and examples. In those cases when guidance for a specific transaction or event cannot be found in the frameworks, solutions should be searched for in the regulation for similar transactions. If there are no such regulations available, guidance should be searched for in Chapter 2, including the accounting principles, in the frameworks respectively (BFN, 2008:1; BFN, 2012:1). BFN especially maintain that unregulated accounting questions regarding companies applying K3, can often be answered by applying the principles in chapter 2, since K3 is a principles-based framework BFN (2012:1). Furthermore, the following sections provide a short introduction of the two frameworks included in the study, namely K2 and K3.

### 2.1.1 K2

As mentioned in previous sections, the K2 framework should be applied for annual reporting in small limited companies and the framework should be applied in its entirety (BFN, 2015e). In June 2008, BFN adopted the K2 framework in terms of BFNAR 2008:1 that came into effect the 31st of December 2008. However, it became mandatory from fiscal years starting 2014. Moreover, the framework is characterized by simplifications and it is based on the conservative principle. As for instance, fair value measurement is, according to the K2 framework, not allowed. The simplifications usually regard standard solutions such as in the context of accruals and additional disclosures. Furthermore, the framework provides fewer accounting options and it demands less disclosures compared to the K3 framework (BFN, 2015f). Finally, legal text from ÅRL and general advice are included in the same chapter, meanwhile comments and examples are divided into two separate chapters, which is in contrast to K3 (BFN 2008:1).

### 2.1.2 K3

In 2012, BFN decided upon the adoption of the K3 framework, starting by the 31st of December 2013. Although, the framework and the BFNAR 2012:1 were applicable even before this date. Furthermore, BFN considers K3 as the main framework within the K-project. The structure of the framework is mostly in accordance with IFRS for SME, which also constitutes the base for the development of K3 (BFN, 2015c). Moreover, in the guidance document provided by BFN, it is clearly stated that the framework takes on a principles-based approach. However, BFN states that in some cases, rules within the K3 framework diverge from principles defined in the second chapter of the K3. The reason for this would be the requirements of fulfilling the law in terms of ÅRL.

In similarity with the K2-framework, K3 should be applied in its entirety, although K3 is directed towards large companies not complying with IFRS/IAS. Still, companies categorized as small, do have the possibility to comply with the K3 framework. However, small companies do not need to follow the K3 rules specifically drafted for large companies, such as presenting a cash flow statement in the annual report. Finally, in BFN's guidance related to K3, comments from BFN and legal text from ÅRL are presented in connection to the items in order to ease the understanding of the framework (BFN, 2012:1).

### 2.1.3 Differences between K2 and K3

According to BFN (2015b) there are some general differences between K2 and K3. BFN (2015b) claims that K2 is rules-based and K3 is principles-based. As for instance, in K2 there is one separate chapter concerning operating expenses. In K3, on the other hand, guidance concerning operating expenses can be found in the chapter of accounting principles. Moreover, K2 is based on the conservatism principle, which is in contrast to K3. As for instance, measurement to fair value is permitted according to K3, while in K2 it is prohibited due to the conservatism principle. Also, In K2, the present value method should not be used, which is in contrast to K3 where it should normally be applied. Other differences regard specification of significant amounts in K2 meanwhile K3 does not normally specify any exact

amounts, implying the need for professional. Finally, K2 contains more simplifications of rules compared to K3. As for instance, the useful life for machinery and equipment is according to K2 allowed to be five years.

## 2.2 Literature review

### 2.2.1 Accounting principles

The figuration of K2 and K3 is based on the following accounting principles, of which firms have to comply with in their production of financial reports. Different types of frameworks contains more or less references to accounting principles, implying that principles-based frameworks tend to include more referencing to accounting principles compared to rules-based frameworks (Bradbury & Schröder, 2012). This is in line with Stuebs and Thomas (2011), referring to SEC (2002), stating that principles-based standards contain more references to conceptual frameworks compared to rules-based standards. The accounting principles presented below are, if no other reference is specified, gathered from the K3 framework (BFN, 2012:1).

**Generally Accepted Accounting Principles** refers to the compliance with praxis within the “Svenska bokföringslagen” (Bokföringslag, SFS 1999:1078).

**True and fair view** implies that accounting should be faithfully represented and free from misstatements (Årsredovisningslag, SFS 1995:1554).

**Going concern** regards the assumption of continuing the business when producing the balance sheet, income statement and disclosures.

**Consistency and comparability** implies that similar transactions should be accounted for equally. It stresses investors’ rights to follow a firm’s performance, over time and between different companies.

**Accrual basis of accounting** refers to the requirement of accounting for expenses and income in the same period as they occur, independently of the time for payment.

**Conservatism principle** regards the importance of not overestimating assets or income as well as not underestimating liabilities or expenses.

**Materiality** implies that each item should be accounted for separately.

**Offsetting principle** regards the offsetting between income and expenses as well as between assets and liabilities. In K3, offsetting is only permitted when general advice allow it. In the K2 framework, offsetting is prohibited.

**Continuity principle** refers to the requirement of the closing balance of previous year matching the opening balance of the fiscal year.

**Substance over form** implies that transactions should be accounted for with respect to the underlying substance of the transaction.

### 2.2.2 Definitions of rules and principles

According to Stuebs and Thomas (2011, p 70), accounting principles are defined as:

“Normative statements, either expressing an objective of financial reporting, or a desired qualitative characteristic of the outputs of the accounting process, or even a general statement about accounting treatments that standard-setters propose should be applied, albeit with occasional qualifications or exceptions.”

Furthermore, Cunningham (2007) maintains that rules are norms with clear guidance, containing high levels of details, concreteness and specificity. Principles, on the other hand, provide more general guidance compared to rules as well as being characterized by vague formulations and abstractness. Moreover, great need for judgment when applying a standard implies principles-based characteristics. On the contrary, low levels of required judgment indicate rules-based characteristics.

According to Peczenik (1995) the legal definition of a rule is an arrangement that only provide two different possibilities, that is, comply with the rule, or not. The concept of principles, on the other hand, is characterized by more vague definitions. Furthermore, Simmonds and Lindahl (1988) maintain that principles are often used as guidance, requiring greater need for professional judgment compared to rules. Also, the authors claim that two rules cannot be applied at the same time since rules contradict each other. In accordance with previous authors, Wüstemann and Wüstemann (2010) state the level of precision to differ between rules and principles. Rules include more strict and detailed guidelines, without need for professional judgment. Principles, on the other hand, demands more knowledge and judgment in its application due to its vague precisions.

### **2.2.3 Definitions of rules- and principles-based frameworks**

Bullen and Crook (2005, p.1) define principles-based standards as follows:

“To be principles-based, standards cannot be a collection of conventions but rather must be rooted in fundamental concepts.”

An important distinction between rules- and principles-based standards is that rules-based standards define “what” the practitioner should do, meanwhile principles-based standards are built on communication, trying to guide the practitioner to make the best judgment and decision (Stuebs & Thomas, 2011). Furthermore, despite the fact of principles-based standards being more vague, principles might yet be more user friendly compared to rules, since the intention of the prescriptions might be clearer. Thus, rules are connected to some level of uncertainty despite its high level of details. This might be the case in complex situations when rules are not directly applicable, implying principles to be more preferable. Although, rules might still function as supportive to principles (Cunningham, 2007). Moreover, Schipper (2003) argues that rules are characterized by containing more exceptions compared to principles. This is in line with FASB (2002), stating that one of the main differences between rules- and principles-based standards is that the latter could be applied more widely, including fewer exceptions compared to rules. Another main difference regards



rules-based standards containing more guidance in *how* to apply standards, which is in accordance with Steubs and Thomas (2011).

Furthermore, Jamal and Tan (2010) find principles-based standards to include an accurate but not an unreasonable large amount of implementation guidance as well as excluding exceptions. Also, the authors state that principles-based standards clearly refer to the conceptual framework and the accounting principles. That is, the different ways of reporting for the same transaction would be reduced since the conceptual framework lead the preparer to make the most accurate accounting choice. Even though principles-based standards do not include exceptions, factors such as valuation methods and scope may lead to loopholes and in turn unwanted accounting (Jamal & Tan, 2010).

Furthermore rules-based standards can be defined as containing narrow details when it comes to implementation guidance and compliance. Principles-based standards, on the other hand, lack such type of guidance. However, principles-based standards demand a higher degree of judgment and contains more distinct “statements of intent”, implying such standards to focus on the intent rather than explaining in details how to proceed the transaction. This indicates that an accountant using a principles-based standard have more freedom in its performance of financial statements, compared to accountants using rules-based standards (Collins, Pasewark and Riley, 2012) .

Moreover, Bradbury and Schröder (2012) state that rules- and principles-based approaches differ in drafting, mainly regarding the use of extensional or intensional definitions. Rules-based standards use extensional definitions, meanwhile principles-based standards are characterized by intensional definitions. In the extensional definitions, the members of a category such as regarding the qualification of assets are identified by a specified list of rules and items that might be qualifying, also providing exceptions to the list. The intensional definition, on the other hand, provides more guidance on the definition often by stating examples. Hence, it indirectly identifies members of a category by the specification of sets of properties. Additionally, Bennett, Bradbury and Prangnell (2006) agree on examples being indications of principles-based characteristics. According to the authors, standards include examples in order to support general definitions where judgment is required.

Moreover, Bradbury and Schröder (2012) not only claim that rules-based standards include more specific rules and less guidance compared to principles-based standards. Additionally, the level of justification from non-conceptual frameworks’ concepts is higher among the rules-based standards. On the contrary, principles-based standards are stated to emphasize professional judgment, including fewer rules. The authors state this type of standards to include a lower number of strict guidelines, often referred to as bright-line thresholds. Also, principles-based standards include fewer scope exceptions compared to rules-based standards.

Bradbury and Schröder (2012) develop six propositions used to distinguish principles-based standards from rules-based standards. The authors maintain that principles-based standards include:

1. Fewer rules
2. More references to accounting principles in conceptual frameworks
3. Higher demand for judgment
4. Fewer bright-line thresholds
5. Less exceptions
6. Lower levels of verboseness and complexity.

Also, Dennis (2008) defines principles-based standards by referring to SEC's (2002) five parameters required for a standard in order to be defined as principles-based. These characteristics are in line with Bradbury and Schröder's (2012) six proposition, though with some small changes. According to SEC, principles-based standards include statements of accounting principles, including few exceptions. However, such standards do not contain any bright-line thresholds or extensive guidance of implementation. According to Dennis (2008), understanding of the intention of the characteristics is highly important in order to classify a standard as principles-based. He raise questions such as "If a question has all these conditions, then is it a principles-based standard?" and "If a standard is principles-based, does it have to have each of these characteristics?" (p. 266). Dennis (2008) establishes that even though a standard does not contain all characteristics, it can still be defined as principles-based. That is, if a standard contains nearly all of the five characteristics, it might be sufficient for classification.

#### **2.2.4 The principles versus rules debate**

The general perception among researchers is that the development of accounting standards is moving towards the principles-based approach (Agoglia, Doupnik and Tsakumis, 2011; Benston, Bromwich and Wagenhofer, 2006). Agoglia, Doupnik and Tsakumis (2011) criticize rules-based standards for making CFOs more likely to report aggressive accounting compared to principles-based standards. The authors state that there is lower risk for creation of own accounting methods when applying principles-based standards, since rules are more complex compared to principles. Also, Benston, Bromwich and Wagenhofer (2006) argue for principles-based standards since too high levels of details may lead to deceptive financial statements. Moreover, Alexander and Jermakowicz (2006) criticize rules standing by themselves for being too detailed and adequate. Therefore, it is preferable to use rules that are based on principles. Furthermore, the authors claim that there is a risk for rules-based standards becoming unclear due to the complexity of rules.

Shortridge and Myring (2004) find the major advantage of principles-based standards to be that principles are applicable to numerous situations. Moreover, principles-based frameworks are more straightforward and shorter compared to rules-based frameworks, characterized by an extensive amount of detailed rules. Schipper (2003), on the other hand, criticizes principles-based standards for being vague and for including too much need for judgment. She states that the use of principles, with greater need for judgment, decreases the comparability of accounting between companies. However, Agoglia, Doupnik and Tsakumis (2011) state in their study that the use of principles-based standards does not reduce the

comparability between companies and countries. Furthermore, Wüstemann and Wüstemann (2010) state that if principle-based standards are applied with professional judgment, such standards can be applied and suited for several situations without being constituted of bright-lines in terms of strict rules. The authors find rules-based standards to be preferable due to the importance of comparability between companies across borders. That is, in cases when standards require professional judgment, the comparability would much likely be affected. Also, the authors stress the significance and benefits of the concreteness that rules-based standards are characterized by.

Moreover, Mintz (2010) discusses principles-based standards in the context of measurement. The author states that principles-based standards are more ambiguous compared to rules-based standards and maintain that principles-based standards do not regard controversial issues when it comes to measurement. The author claims principles-based standards to lack precision, which could lead to differences in application. In the context of valuation and measurement, principles-based standards lack specific guidelines when it comes to for instance revaluation. This is according to the author specifically the case when fair value is used for revaluation. Thus, principles-based standards provide little guidance in the determination of the fair value amount, leading to subjective valuation with lack of precision.

### **2.2.5 The issue of classification**

There is a general perception that accounting standards have to be classified as either rules-based or principles-based (Dennis, 2008). However, surveys made by the U.S. corporate law and regulation shows the importance of designing systems that combine rules and principles (Cunningham, 2007). Also, Nelson (2003) maintains that there is no refined rules- or principles-based accounting since rules have their basis in principles that are more or less rule based. Therefore, the author states the importance of creating standards including the right balance of rules and principles. That is, enough rules to communicate something clearly, without making the performers overwhelmed. This is in line with Collins, Pasewark and Riley (2012), stating that most of the accounting standards contain rules and therefore, the authors want to classify all standards as rules-based. Also, Alexander and Jermakowicz (2006) maintain that rules and principles complement each other. Therefore, the authors prefer standards including elements of both, which is in accordance with Nelson's (2003).

In a study performed by Bennett, Bradbury and Prangnell (2006), three standards were investigated in order to determine if the standards were of a rules-based or principles-based character. The results showed that each standard were based on principles, though all of them contained rules. Therefore, the authors concluded that it is irrelevant to label the standards as either rules- or principles-based. Moreover, researchers have tried to explain rules-based vs. principles-based characteristic on a scale. On the rules-based extreme there are rigid rules and on the principles-based extreme there are great need for judgment and guidelines constituting of economic-based concepts. Therefore, the authors state that completely principles-based standards cannot exist since the conceptual framework would be the only thing for the preparers to rely on. Hence, since standards are still used there is still a need for clarification

of the conceptual framework in terms of rules. However, the standard setting of today tends to move towards the principles-based direction and the authors claim that in order to make the frameworks more principles-based there is a need for reducing the focus on consistency and comparability as well as putting more weight on other qualitative characteristics. Also, a more principles-based standard setting would require more focus on the economic substance of transactions, allowing more professional judgment (Bennett, Bradbury & Prangnell, 2006).

Shortridge and Myring (2004) agree with previous authors when it comes to the difficulty in labeling standards as either rules- or principles-based. If principles in the conceptual framework were the only requirement and basis for accounting, companies could choose to account for transactions so that it would best reflect the underlying economic aspects. However, in this case investors would experience difficulties in their evaluation and comparison of companies. Therefore, principles-based standards tend to have rules-based characteristics as the standard setters aim to increase the comparability.

Furthermore, Dennis (2008) highlights SEC's statement of rules- and principles-based standards becoming fashionable concepts. Even though these concepts have become popular and stated to be useful, SEC claims that the meaning and the interpretations of these terms are highly subjective. Therefore, a standard setting process derived from a principles-based approach does not necessarily mean that the standard itself automatically becomes principles-based. Thus, the type of standard is also related to what types of qualities it includes. As mentioned earlier, a standard might be considered as being principles-based although it practically includes rules-based characteristics such as exceptions and strict rules (Shortridge and Myring, 2004). The fact that the two terms "rules-based"- and "principles-based" standards can be subjects for different concepts might involve confusion. The confusion does according to the authors regard the *meaning* of "principles-based" and "rules-based". It is difficult to determine the usefulness of different types of frameworks when not exactly knowing the meaning of it. Nobes (2005) agrees on the difficulty to determine the usefulness of principles-based standards when there is no clear concept of the meaning of different types of standards. Therefore, it is more relevant to investigate individual characteristics in standards that are stated to meet certain objectives such as faithful representation and comparability. That is, principles-based characteristics are claimed to fulfill the objectives of faithful representation and comparability. Hence, instead of investigating rules- and principles-based concepts, the focus should preferably be on the characteristics (Nobes, 2005).

## 3. Index model

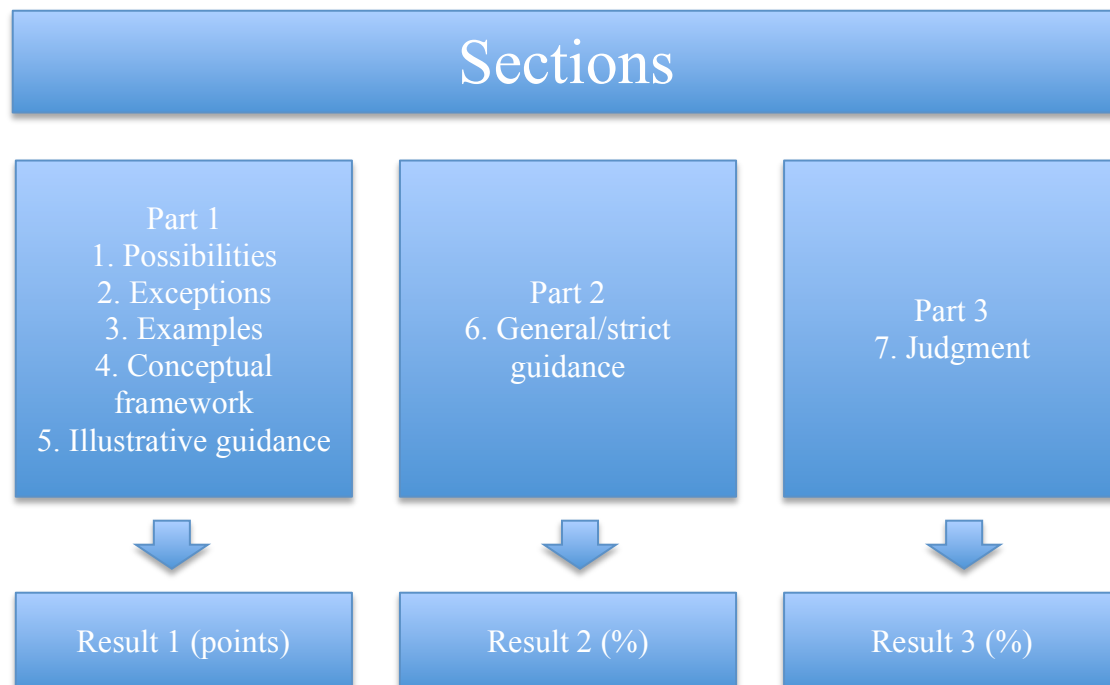
### 3.1 Construction of index model

According to Johansson and Svedner (2006), a text analysis may involve questions such as “What does the text express?” “What does it not express?” “Does the text consist of any indirect implications?”. In order to facilitate the process of a text analysis, an index model is developed based on literature. In order to classify the sections and the frameworks as either rules- or principles- based, each chosen section within the frameworks is analyzed with respect to seven parameters, which together create an index model. The index model is developed by us and therefore not fully objective and value-free. However, the parameters are carefully selected based on literature, where researchers define rules, principles and rules- and principles-based frameworks. Also, the parameters are based on indices explained in the methodology section below, such as the Fog index and the Flesch readability formula. K2 and K3 are both written in Swedish, requiring the development of a word list containing relevant words and terms needed for the investigation. That is, words used in the investigation of parameter 1-7 are translated from Swedish to English (Appendix 1).

The analysis is divided into three parts. The first five parameters: possibilities, exceptions, examples, conceptual framework and illustrative guidance constitutes the first part. At first, each section is analyzed based on the above-mentioned parameters and thereafter provided with points based on its characteristics. The points related to each parameter are aggregated into one total score, which is compared to the corresponding total score in the other framework. When all sections are marked, a comparison between the two frameworks regarding the total aggregated score of all sections is carried out. Each parameter provides the sections with 0, 1 or 2 points, where 0 point indicates rules-based characteristics and 2 points indicate principles-based characteristics. The intention of the first part is to focus on the number of implications of rules- or principles-based characteristics rather than word counts.

The second part of the analysis concerns the sixth parameter, the level of general guidance. In contrast to the first part of the analysis, this stage is not measured in points. Instead, the amount of words implying general features are put in relation to the amount of words implying strict regulatory guidance. Thus, the sixth parameter is measured in terms of percentage. High percentage indicates high level of general guidance, which in turn implies a principles-based approach. Meanwhile, a low percentage of general guidance indicates a rules-based approach. Finally, the seventh parameter concerns the need of judgment when applying the frameworks. The results for this parameter are presented in terms of words associated to judgment in relation to the total amount of sentences in each section. That is, all words related to judgment within a section is counted and thereafter put in relation to the amount of sentences within the same section. Thus, as well as the sixth parameter, this parameter is measured in terms of percentage. Previous researchers have used word lists such as “Harvard dictionary” when performing text analysis. However, Loughran and McDonald (2011) show the benefits of developing a word list suitable for the specific context instead of using existing word lists. The authors claim that the usage of existing dictionaries involves a

risk of misclassification due to the fact that existing dictionaries might be developed for other areas. Therefore, in order to best reflect the words and to minimize the risk for misclassification, we have developed a dictionary suitable for this study (Appendix 1).



*Figure 1 illustrates the foundation of the developed index model. The results are given by investigating the sections with help from seven parameters gathered from literature.*

### 3.2 Review of parameters

As mentioned in earlier chapters, this study consists of a text analysis regarding measurement issues in the K2 and K3 frameworks. The analysis includes legal text, general advice and comments. However, the index model only specifies the range of general advice within each section, even though both legal texts and comments related to the general advice are included in the analysis. Furthermore, parameter specific characteristics are only taken into account the first time it is mentioned. That is, in those cases when information is first mentioned in a general advice and then repeated in a following comment it will only be considered the first time.

The following section present the seven parameters used in the analysis of the sections within the frameworks.

#### 3.2.1 Possibilities

According to Peczenik (1995), the possibility or not of choosing between different accounting actions indicates whether the prescription is a rule or a principle. That is, if the prescription only leaves one way of acting upon it, it is of a rules-based character. Consequently, according to the author, a rule can either be complied with or broken since

there are no alternative ways of acting upon it. Furthermore, according to Simmonds and Lindahl (1988) principles are often used as guidance, implying that in contrast to strict rules, guidance provides the user with different choices of accounting for a transaction. Therefore, if there is a possibility to choose between different ways of acting upon a regulation, it would according to the authors be of a principles-based nature.

0- The section contains no prescriptions that leaves room for different ways of financial reporting.

1- The section contains one or two prescriptions that leaves room for different ways of financial reporting.

2- The section contains more than two prescriptions that leave room different ways of financial reporting.

In this study, a possibility is defined in accordance with Norstedts Svenska Ordbok (2015a) as the possibility to choose between several different options. The possibilities regard prescriptions that leave room for different ways of financial reporting. The words “may”, “no need for” and “can” are used to identify indications of possibilities. When investigating the frameworks in relation to this parameter, the focus is on the meaning of the above-mentioned words. That is, only those words that give the accountant different accounting options have been taken into consideration. Hence, it is not the appearance of the words themselves that generate points but rather the underlying meaning.

### 3.2.2 Exceptions

According to Bradbury and Schröder (2012), rules-based standards are characterized by extensional definitions, containing more exceptions compared to principles-based standards. The authors claim that lists of rules followed by exceptions characterize rules-based standards. Also, Schipper (2003) argue that principles contain fewer exceptions compared to rules and FASB (2002) state that this is one of the main differences when comparing rules- and principles-based standards. Hence, if a section contains exceptions, it is likely to be of a rules-based character and will therefore receive lower points.

0- The section contains more than two prescriptions with following exceptions.

1- The section contains one or two prescriptions with following exceptions.

2- The section contains no prescriptions with following exceptions.

In this study, an exception is defined in accordance with Norstedts svenska ordbok (2015b) as; “someone or something that is not covered by the specified context”. Based on this definition, exceptions from the main rules within the frameworks are identified. In order to facilitate the identification of exceptions, the words and phrases “if not”, “however”, “not applicable if”, “an exception”, “despite”, “instead of” “except” and “in some cases” are used as indications of exceptions.

### 3.2.3 Examples

Bradbury and Schröder (2012) state that principles-based regulation is characterized by guidance followed by examples, meanwhile the rules-based approach is characterized by a list of rules followed by exceptions. Also Bennett, Bradbury and Prangnell (2006) relates examples to principles-based standards since examples support the preparers in their accounting decisions. Therefore, if the investigated sections in this study contain examples, these sections include principles-based characterized and will therefore receive higher points.

- 0- The section contains 0-2 prescriptions with following examples.
- 1- The section contains 3-4 prescriptions with following examples.
- 2- The section contains more than 4 prescriptions with following examples.

In this study, an example is defined in accordance with Norstedts svenska ordbok (2015c) as; “a typical phenomenon often selected to illustrate and explain a composite group”. Based on this definition, examples within the frameworks are identified. In order to facilitate the identification of examples, the words and phrases “for example”, “etc.”, “general example” and “among others” are used. Only those examples that shortly support main prescriptions in terms of few words or sentences are generating points. That is, illustrative guidance is characterized by extensive support and application to specific firm situations are not included in this parameter since these types of examples provides strict guidance, implying a rule-based approach (FASB, 2002; Steubs & Thomas, 2011). Illustrative guidance is covered in parameter 5.

### 3.2.4 Conceptual frameworks

Bradbury and Schröder (2012), Jamal and Tan (2010) and Stuebs and Thomas (2011) state that principles-based frameworks include more references to accounting principles compared to rules-based frameworks. Furthermore, the accounting principles referred to in this study are those who are specified in the literature review. Sections containing references to accounting principles are likely to adopt a principles-based approach. Thus, if the investigated section includes specific references to accounting principles, it will receive higher points.

- 0- The section includes no prescriptions containing literal references to conceptual frameworks characteristics.
- 1- The section includes one prescription containing literal references to conceptual frameworks characteristics.
- 2- The section includes more than one prescription containing literal references to conceptual frameworks characteristics.

### 3.2.5 Guidance

According to Cunningham (2007) and Bradbury and Schröder (2012), the type and characteristics of guidance is an indication of whether a regulation is rules- or principles-based. Cunningham (2007) states that clear guidance implies a rules-based approach, which is



in line with Bradbury and Schröder (2012) stating that rules-based standards are built on specific guidance, as for instance by the list of rules. On the contrary, the authors claim that principles-based standards include general guidance and sets of properties, without providing specific rules. This is in line with FASB (2002) and Steubs and Thomas (2011) stating that rules-based standards contain more guidance in how to apply the standards compared to principles-based standards.

### ***3.2.5.1 Illustrative guidance***

0- The section includes more than two prescriptions containing illustrative guidance regarding company specific cases in reality.

1- The section includes one or two prescriptions containing illustrative guidance regarding company specific cases in reality.

2- The section includes no prescriptions containing illustrative guidance regarding company specific cases in reality.

In this study, illustrative guidance is defined as guiding examples in terms of company specific cases. That is, when a prescription regards a company specific context adjusted to describe and fit certain situations in order to help the user applying the standard. In contrast to examples as described in previous sections, these type of illustrative guidance are comprehensive and appears in company specific situations. When investigating this parameter, prescriptions containing guiding examples within the general advice and comments are taken into account. Also, the frameworks include a separate chapter including guiding examples, which are counted for each time the prescriptions include references to such examples.

### ***3.2.5.2 General/Strict guidance***

Regarding parameter six, the words “shall”, “shall not”, “may only”, “cannot” “have to” and “may not” are considered as implications of strict regulatory features, meanwhile the words “can”, “no need for” and “may” are considered to implicate general features. Both strict words and general words in each section are counted and thereafter put in relation to each other. In accordance with Cunningham (2007) and Bradbury and Schröder (2012), a high percentage rate implies general guidance and a principles-based approach meanwhile a low percentage rate indicates strict regulatory guidance as well as a rules-based approach.

Furthermore, only those words that have impact on the accounting are taken into account. That is, the above-mentioned words might occur in the frameworks without affecting the accounting and are therefore not taken into consideration. To specify, the words and phrases are only taken into account when they occur in the context of affecting the user to act in a specific manner. As mentioned earlier in this report, this parameter constitutes part two of the investigation and is measured in percentage and therefore excluded from the first investigation area measured in points.

### 3.2.6 Judgment

It is a general perception that there is a higher need for judgment when applying principles compared to rules (Bradbury & Schröder, 2012; Simmonds & Lindahl, 1988). Cunningham (2007) claims that if the need for professional judgment when applying a prescription is high, it is likely to be of a principles-based character. Also, Wüstemann and Wüstemann (2010) claim that principles are vague, implying higher demand for professional judgment compared to rules. Moreover, this parameter is measured in terms of percentage of the amount of words related to judgment in relation to the number of sentences included in each specific section. The words are put in relation to sentences in order to get a comparable proportion of words between the two frameworks.

A word is considered as related to judgment if it requires the accountant to make estimations and/or if judgment is needed when assessing the prescription. Depending on how words are assessed, the outcome of the accounting might differ from case to case. The words we consider as related to judgment are presented in Appendix 1.

## 4. Method

### 4.1 Research approach

#### 4.1.1 Qualitative approach

The aim of this study is to increase the understanding of the K2 and K3 frameworks and therefore, the method is characterized by qualitative features. The focus of this study is not on quantitative statistical aspects, although it includes quantitative elements in terms of the scoring process and word counts. However, the focus is on getting deeper understanding of the K2 and K3 frameworks in order to enable classification in terms of rules- or principles-based characteristics. The study requires flexibility in the process of gathering and analyzing data, which a qualitative research design generally provides (Jacobsen, 2002). The author states that a qualitative approach is beneficial when investigating areas where similar studies have not been performed. As mentioned earlier, when assessing the research area of K2 and K3, no similar studies were found. Another additional characteristic that Jacobsen (2002) discusses is that a qualitative approach is to prefer when an extensive overview of the research area is crucial. That is, it is of high importance to understand the concepts of rules- and principles-based standards and to get an overview of the standards setting process as a whole. Thus, the study includes elements of both quantitative and qualitative methods, combining a numerical index with increased understanding of the K2 and K3 frameworks.

#### 4.1.2 Methodology

The methodology can be explained by the way of how the research question is investigated (Collis & Hussey, 2014). The methodology of this study consists of a text analysis and the foundation of this type of methodology is the close reading of documents. Therefore, the content of the frameworks was carefully reviewed in the research process. Moreover, the documents for the text analysis, K2 and K3, are classified as secondary data since the data is collected from existing sources (Collins & Hussey, 2014). Furthermore, when investigating several texts, the possibility of comparison arises. Bennett, Bradbury and Prangnell (2006) state that finding distinctions in terms of rules- versus principles-based characteristics between different frameworks are not important if the distinctions are not analyzed in relative terms. Therefore, the study aims to describe and analyze the content of each framework respectively but also to compare the frameworks to each other. In other words, the study includes a comparative analysis of K2, a purported rules-based framework and K3, a purported principles-based framework (BFN, 2015b). Hence, the focus is on classifying the items in K2 and K3, both separately and in relation to each other, with help from the index model presented in chapter 3.

In order to classify the items as either rules- or principles-based, definitions of concepts and theories related to the frameworks are studied. Thereafter, the empirical data is gathered with respect to the chosen theories. In order to enable analysis of the empirical data, background theories and definitions are of great importance. However, the research process is also characterized by going back and forth between the empirics and the theory. The reason for

this is the need for complementing the theoretical framework simultaneous to the analysis of the frameworks as the process of gathering the empirical data sometimes requires additional theoretical aspects.

## 4.2 Use of indices

In order to analyze the frameworks, seven parameters are identified from literature. The parameters are used as a tool to collect data in terms of indications of rules- and principles-based characteristics. The parameters are compiled into an index model, as explained in chapter 3.

Loughran and McDonald (2014) investigate the readability of financial disclosure documents. One of the most used methods when measuring readability of financial instrument is “The Fog index”. The index contains of two variables commonly applied when researchers are measuring and defining readability; “average index length” and “proportion of complex words” (Li, 2008; Biddle, Hilary & Verdi, 2009; Lawrence, 2013). However, Loughran and McDonald (2014) criticize the fog index for being poorly specified and too complex. Therefore, the authors develop an alternative way of measuring readability, suitable for their specific study. In our study, an index model suitable for classifying frameworks as either rules-or principles-based is developed. The index is influenced by the Fog index but composed with parameters relevant for this type of study. For instance, instead of using “proportion of complex words”, proportion of words associated with judgment is used.

Another formula widely used for measuring readability is the “Flesch readability formula”, developed in 1943. At first, the formula was based on three elements: “number of affixes”, “average sentence length in words” and “number of references to people” (Flesch, 1948). In recent years, the formula contains of two different variables; word length and sentence length (Bakar, Sheikh & Ameer, 2011). Our study is not supposed to investigate readability of K2 and K3, though the parameters used in our index are influenced by the Flesch readability index as well as the Fox index. According to Sydserrf and Weetman (1999), readability indices such as the Fox index and the Flesch readability formula, have been criticized due to its strong focus on features regarding words and sentences, instead of aspects concerning the text as a whole. Therefore, in addition to the sixth and seventh parameter including word count, five additional parameters are developed in order to classify the K2 and K3 frameworks.

Coy and Dixon (2004) use the Public Accountability Index (PAI) for investigating disclosures in annual reports. The authors apply six stages in the process of developing the index. The first part regards the determination of items included in the study. The second stage considers the choice of parameters when classifying the items. The third stage of the process regards the evaluation criteria. Thus, the authors present criteria for every item in order to facilitate the scoring of items included in the index. That is, a scoring scale of six points is used where each criterion is connected to a specific score. Furthermore, the fourth part in the development of an index is to allocate weightings that implies spreading the

weightings between the different parameters. Moreover, the fifth stage concerns external validation and involves the process of letting someone suitable to comment on the index in order to find weaknesses and improvements needed. The sixth and final stage includes scoring with use from the index. By reading the annual reports carefully, the authors score all the items separately with help from the developed criteria. Secondly, the authors compare different annual reports to each other. Finally, the index scores are sent to preparers for a final check to see if any errors need to be corrected or any changes need to be made (Coy & Dixon, 2004).

This study applies the above-mentioned stages of developing an index model, with some adjustments. Firstly, corresponding items in the K2 and K3 frameworks are identified and separated into sections for investigation. Secondly, the parameters for classification of each section are chosen based on literature and the valuation criteria are developed and improved during the process of analyzing the frameworks. A scoring scale of 0-2 points represents different criteria. The study includes no weightings, although 2 of 7 parameters are separated from the rest due to the inability to measure these parameters in points. These parameters are therefore not included in the aggregated score related to the first part. Instead, the parameters “judgment” and “general guidance” are measured in relative terms in two separate parts, without using the scoring of points.

Furthermore, the seminars in where the opponents of the study as well as the supervisors have the possibility to comment and to criticize the work relates to the external validation presented by Coy and Dixon (2004). Finally, when all the pre-stages and development of the index are carried out, all parameters are evaluated by the index model.

### **4.3 Data collection**

When collecting empirical data, relevant items are identified within the frameworks. That is, identifying sections in both frameworks that could be classified as either rules- or principles-based. To clarify, cash is an item that cannot be accounted for in several ways, regardless of the application of a rules- or principles-based framework. On the other hand, items with a useful life can be accounted for in different ways, depending on whether a rules- or a principles-based framework is applied. This implies that cash is not a relevant item for this investigation, meanwhile the accounting of assets with a useful life are relevant to investigate.

Furthermore, the analysis includes those sections in each framework that regards measurement issues, including legal text, general advice and comments (Appendix 2). Measurement issues is chosen as the main focus area based on BFN’s (2015b) list of differences, where measurement is one of the areas differing most between the two frameworks. Also, Mintz (2010) discusses measurement as an issue in terms of revaluation of assets when applying principles-based frameworks, implying that measurement can be treated differently depending on what type of framework that is applied. Moreover, a section is defined as one specific sub-area connected to one main area. To exemplify, assets represent a

main area containing sub-areas such as depreciation and impairments. The relevant sections are investigated and classified as either rules- or principles-based, with help from the index model described in chapter three.

#### **4.4 Limitations**

Marston and Shrives (1991) stress the importance of the reliability and validity related to index models. The reliability of results derived from an index model is high if other researchers can copy and repeat the same index and method. Furthermore, the K-frameworks is highly a subject for interpretation since the opinion about how the frameworks should be interpreted differs. That is, in order to repeat the study, the risk for different interpretation must be minimized. To minimize this risk, an index is designed in order to provide guidance when carrying out the analysis of the frameworks. Moreover, in order to increase the objectiveness of the method and to facilitate for future usage of the index-model, each step in the process of developing the parameters and the usage of the index model are carefully explained in chapter 3. However, the objectiveness is higher related to parameter 6 and 7, since word count is more objective compared to parameter 1-5, which include more subjective parts. Thus, the development of the index model is not as objective as the usage of it, which is further debated in the method discussion below.

Marston and Shrives (1991) state that the validity of indices is dependent on the researcher's intention of measurement. Therefore, most indices are created in order to fit specific circumstances, implying that indices are tailored for a specific study rather than just copying an already existing index. Furthermore, in order to assure the correctness of the measured aspects, the research question serves as the basis for investigation. Also, the definitions and theories are carefully selected and studied before starting the analysis of the frameworks. This ensures equal investigation of each item based on same criteria and knowledge. Finally, the frameworks are investigated by both authors separately in order to strengthen the credibility of the result.

When performing a comparative analysis of different frameworks, a difficulty might regard differences in jurisdictions between frameworks. In the K2 framework the general advice and the comments are divided into two separate chapters. On the other hand, the chapters in the K3 framework, are divided into areas in similarity to IFRS for SMEs. Hence, each chapter includes legal texts, general advice and comments. Furthermore, in order to ensure the comparability of the chosen sections within the two frameworks, a narrow investigation of the text is carried out. Also, it is of high importance to make sure that areas treating the same items are identified and that sections are compared to each other in a correct way. A list of the investigated sections in K2 and K3 is found in Appendix 2.

#### **4.5 Method discussion**

Using indices is connected to some difficulties involving subjectivity. The awarding of scores and the choice of investigated items are both subjects for judgment. Due to the involved

subjectivity, it is of high importance that the researcher seeks to maximize the objectivity when designing the index model (Marston & Shrives, 1991). However, the results of a future similar study are likely to be in conformity with this study since carefully drafted instructions has been provided on how to use the index model and how to define the parameters when investigating the frameworks. Moreover, the effects of changes in criteria related to the scoring process has been tested by using a robustness test presented in chapter 5.3, implying small impact on the final results. Therefore, despite the somewhat unavoidable level of subjectivity, this study can serve as a base for future studies.

The subjectivity of the study is reflected in the limiting values of the developed criteria, as the scoring scales are initially estimated. Regarding parameter three, examples, the scoring scale initially provided the same values for each section. In order to receive values that best reflect reality, the criteria were revised. The criteria were changed so that more examples were needed to receive the highest score in order to ensure that the whole scoring scale was represented.

Furthermore, the construction of the index model has been revised and changed during the process of investigation. Initially, all seven parameters were included in the first part. That is, all parameters were graded in terms of points and aggregated into one single result. However, “general guidance” and “judgment” involve word count and scoring in terms of points is therefore not appropriate. When assessing a parameter by only counting words, these have to be put in relation to another variable such as total amount of sentences or strict words, in order to enable comparison between the two frameworks. Therefore, the sixth and seventh parameters are separated from the five first parameters, representing two separated results measured in percentage.

## 5. Empirical findings and analysis

The results of the study are presented in the following section, divided into three parts. Part 1 includes one summarizing table presenting the results of parameter 1-5, followed by illustrating bar charts that clarify the main findings. Part 2 and 3 includes illustrating bar charts presenting the main findings of parameter 6 and 7, followed by a mutual table presenting the complete results for part 2 and 3. Appendix 3 provides more detailed information about the underlying factors of the results.

### 5.1 Part 1

Below, all results of K2 and K3 related to parameter 1-5 are aggregated into one summarizing table and constitutes 1 of 3 results of this study. The aggregated score related to each section and framework is presented in the final column. Result 1 shows that K3 receives higher scores in most sections. More specifically, in 10 out of 13 sections, K3 has scores higher points compared to K2, which indicates that those sections tend to be more principles-based. However, the differences in scores between the two frameworks tend to be relatively small. In most sections, the difference in total scores between K2 and K3 is only 1 or 2 points.

If focusing on differences in scores for each parameter, the results related to “possibilities” show that K2 scores 20 out of 26 points whereas K3 receives 21 out of 26 points. According to Peczenik (1995), a principles-based approach is characterized by the possibility of choosing between several accounting actions. Hence, both K2 and K3 gain high scores, implying the same level of principles-based characteristics with respect to this specific parameter. Concerning the second parameter, exceptions, Bradbury and Schröder (2012) and Schipper (2003) state that rules-based standards are characterized by including exceptions. This study shows that K2 scores 6 out of 26 points whereas K3 receives 10 out of 26 points, implying that K2 is being more rules-based compared to K3. Moreover, regarding parameter 3, examples, Bradbury and Schröder (2012) and Bennett, Bradbury and Prangnell (2006) relate the appearance of examples to a principles-based approach. The result of this study shows that K2 gains 14 out of 26 points, whereas K3 receives 8 out of 26 points. With consideration to the above-mentioned authors, K2 is being more principles-based compared to K3. However, “examples” is the only parameter showing that K2 is more principles-based than K3.

Furthermore, parameter 4, conceptual framework, is discussed by Jamal and Tan (2010) and Steubs and Thomas (2011) who state that principles-based standards include more references to accounting principles compared to rules-based standards. The results show that K2 scores 8 out of 26 points meanwhile K3 scores 12 out of 26 points. According to the authors this implies that K3 is being more principles-based compared to K2. Moreover, the final parameter included in part one is “illustrative guidance” discussed by Cunningham (2007) and Bradbury and Schröder (2012). The authors state that rules-based standards are built on specific guidance, which relates to illustrative guidance. The results of this study show that



K2 receives 10 out of 26 points and K3 scores 25 out of 26 points, which according to the authors implies that K3 is being more principles-based compared to K2.

As presented in the table below, the results of part one show contradictory implications regarding the classification of K2 and K3 as either rules- or principles-based. Depending on what parameter taken into consideration, the study shows different results. If the scores of all 5 parameters are aggregated, the total result implies that K3 is being more principles-based compared to K2. However, K3 cannot be considered to be entirely principles-based as it only scores 76 of 130 points. In total, K2 receives 58 points out of 130, implying a more rules-based approach compared to K3.



Figure 2 illustrates the relation between K2 and K3 in terms of aggregated score.

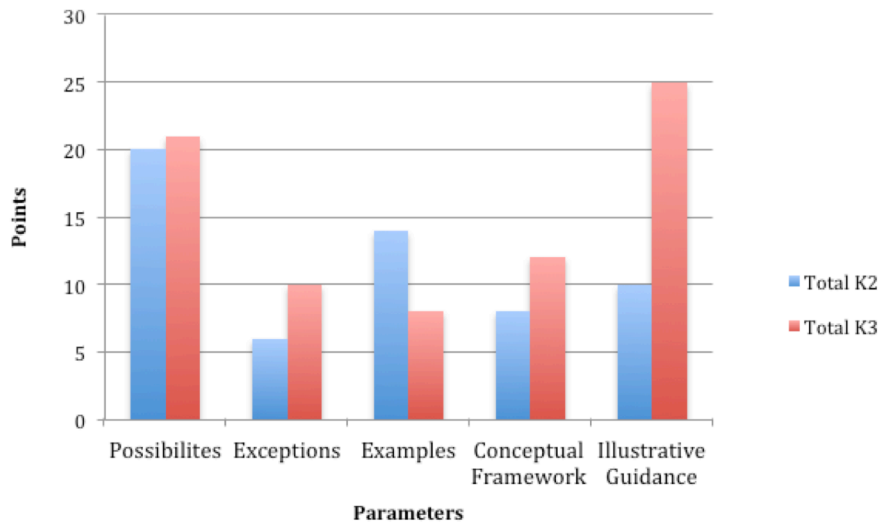
Sections	Parameters					Total
	1.	2.	3.	4.	5.	
<b>Tangible and Intangible assets</b>						
1. Initial val.						
K2	1	1	2	0	1	5
K3	2	0	0	2	2	6
2. Depreciation						
K2	2	0	1	1	0	4
K3	2	0	2	0	2	6
3. Impairment						
K2	1	1	2	0	1	5
K3	1	1	1	0	2	5
4.						
K2	1	1	0	0	2	4
K3	1	2	0	0	2	5
<b>Long term financial assets</b>						
5. Initial val.						
K2	1	0	1	1	0	3
K3	2	0	0	2	2	6
6. Impairment						
K2	1	1	0	1	1	4
K3	2	2	1	0	2	7
<b>Short term financial assets</b>						
7. Valuation						
K2	2	0	2	1	1	6
K3	2	0	1	2	2	7
<b>Stock-in-trade</b>						
8. General reg.						
K2	2	1	1	1	1	6
K3	2	1	0	0	2	5
9. Acq. value						
K2	1	0	1	1	0	3
K3	2	1	2	1	2	8
10. NRV						
K2	2	1	2	0	1	6
K3	1	2	1	1	2	7

<b>Provisions</b>						
11. Valuation						
K2	2	0	2	0	0	4
K3	1	1	0	0	1	3
<b>Long term liabilities</b>						
12. Valuation						
K2	2	0	0	1	1	4
K3	1	0	0	2	2	5
<b>Short term liabilities</b>						
13. Valuation						
K2	2	0	0	1	1	4
K3	2	0	0	2	2	6
<b>Total K2</b>	20	6	14	8	10	58
<b>Total K3</b>	21	10	8	12	25	76
<b>Total</b>	41	16	22	20	35	134

*Table 1 illustrates the results from part one in terms of scores related to each parameter and section of K2 and K3 respectively.*

As presented in figure 3, all parameters except from examples receives higher scores in K3 compared to K2. K3 gains higher points in four of five parameters, implying that K3 is more principles-based compared to K2. However, “illustrative guidance” is the only parameter that significantly differs between the two frameworks. “Possibilities”, “exceptions” and “conceptual frameworks” are all parameters that generates results with small differences between K2 and K3 meanwhile “examples” and “illustrative guidance” provides results showing more significant variation between the two frameworks. However, the results from “examples” and “illustrative guidance” are showing contradictory results. That is, with respect to “examples”, K2 is being more principles-based compared to K3 meanwhile “illustrative guidance” implies that K3 is being more principles-based.

The difference in total score amounts to 18 points, where K2 receives 58 points and K3 76 points. However, when investigating each parameter separately the results show that the main difference is represented by “illustrative guidance”. That is, K2 includes more illustrative guidance compared to K3, which may be a result of the inclusion of a separate chapter within K2 that provides such guidance. If “illustrative guidance” was to be excluded from the investigation, the final result would be highly affected. In that case K2 would receive 48 points whereas K3 would gain 51 points. Hence, “illustrative guidance” is the most critical parameter in terms of affecting the final result of K3 being more principles-based compared to K2. Also, due to the great impact of “illustrative guidance” combined with contradictory results regarding the other parameters, the results do not imply that K3 is entirely principles-based and K2 entirely rules-based.



*Figure 3 illustrates the total score of K2 and K3 respectively in relation to the five parameters included in part one.*

As presented in figure 4, overall K3 receives higher scores compared to K2 since section 8 and 11 are the only sections showing the opposite, implying that K3 takes on a more principles-based approach. Section 9 shows the most significant difference between the two frameworks since K3 exceeds K2 with five points. Therefore, section 9 shows the most distinct results of K2 being rules-based and K3 being principles-based. However, the results of the remaining sections show a less significant difference between the two frameworks. That is, in those sections the results of K2 and K3 differ with less than four points. Regarding classification of K2 and K3 as either rules- or principles-based, the results from part one in relation to sections might appear as relatively straightforward in terms of K3 being more principles-based compared to K2. However, both K2 and K3 adopts relatively centered values, implying that neither K2 nor K3 can be classified as entirely rules- or principles-based.

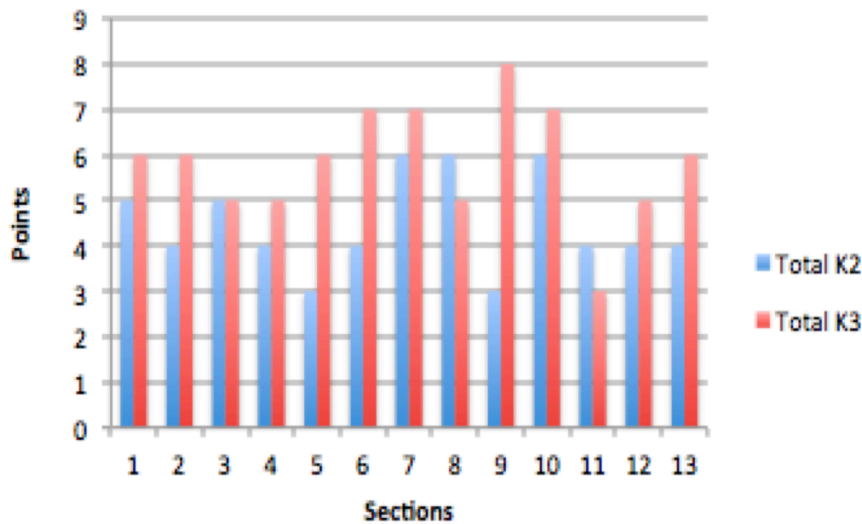


Figure 4 illustrates the total scores of K2 and K3 respectively in relation to each section.

### 5.2 Part 2

Below, table 2 presents the results from part 2 regarding parameter 6 in terms of the level of general guidance in relation to strict guidance provided by K2 and K3. The level of general guidance in K2 exceeds K3 in 7 of 13 sections, which implies that the level of general guidance is nearly the same in both frameworks. However, in those sections where K2 exceeds K3, the difference between the frameworks is more significant compared to those cases when K3 exceeds K2.

Different types of guidance are discussed by Bradbury and Schröder (2012) and Cunningham (2007) who state that strict guidance is related to rules-based accounting frameworks meanwhile general guidance is connected to principles-based accounting frameworks. The results show that K2 receives a total average of 34,1 % general guidance in relation to strict guidance meanwhile K3 receives 30,1%. Therefore, the results implies K2 being more principles-based compared to K3. However, the difference between K2 and K3 is relatively small, which is illustrated below.



Figure 5 illustrates the relation between K2 and K3 in terms of level of general guidance measured in percentage.

The percental difference between K2 and K3 differs between the sections, ranging from 2 percentage points in section 1 and 7 up to 77 percentage points in section 8. When K3 exceeds K2 it is mostly by a small percental difference. However, section 8 stands out in terms of K3 exceeding K2 significantly, implying K3 being more principles-based. On the

other hand, in those sections when K2 exceeds K3, the percentual differences between the two frameworks are higher compared to those cases when K3 exceeds K2. That is, even though K3 exceeds K2 as often as the opposite, the percentual difference between the two frameworks is higher in those cases when K2 exceeds K3. Therefore, the results from part 2 vaguely imply that K2 is being more principles-based compared to K3. However, figure 6 below shows a wide spread between the results from different sections, implying somewhat contradictory results.

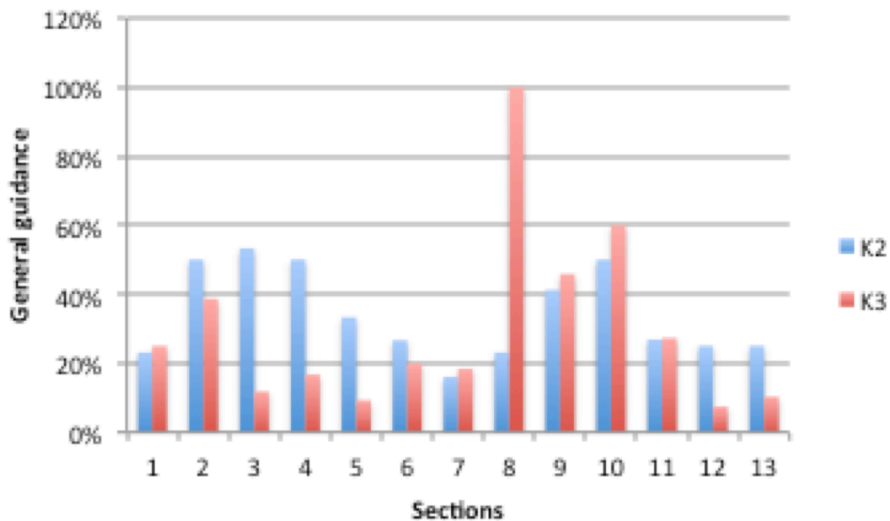


Figure 6 illustrates the level of general guidance in relation to strict guidance for each section in K2 and K3 respectively.

### 5.3 Part 3

Table 2 presents the results from part 3 regarding parameter 7 in terms of the level of required judgment when applying the frameworks. The need for judgment in K3 exceeds the need for judgment in K2 in all 13 sections. Furthermore, section 3 concerning impairments of tangible and intangible assets, deviates from the other sections by adopting a high level of required judgment for both K2 and K3. Section 6 in K3, impairment of long-term financial assets, shows the highest level of judgment, reaching 93,5 %, meanwhile the same section in K2 only amounts to 12,2 %. The section containing the lowest level of judgment is section 5, initial valuation of long-term financial assets, where the level of required judgment in K2 amounts to 4,3 %.

According to Simmonds and Lindahl (1988), Wüstemann and Wüstemann (2010) and Schipper (2003), the need for professional judgment when applying accounting frameworks determines whether accounting frameworks are rules- or principles-based. That is, greater need for judgment is an indication of principles-based standards. Furthermore, the total average results for all sections show that the need for judgment in K2 amounts to 18,7% meanwhile the need for judgment in K3 amounts to as much as 56,2%. This result implies K3 being considerably more principles-based compared to K2, which is illustrated below.



Figure 7 illustrates the relation between K2 and K3 in terms of level of required judgment measured in percentage.

As presented below, K3 contains higher levels of required judgment in all sections compared to K2. Overall, words associated with judgment in relation to sentences in K2 adopts values under 30 % meanwhile the same percentage in K3 mostly adopts values over 40%. That is, K3 requires more judgment in its application compared to K2. Therefore, the results related to this parameter implies K3 being more principles-based compared to K2. One possible reason for the large difference in the need for judgment between K2 and K3 may be that K3 is based on IFRS for SME (BFN, 2015b) meanwhile K2 is based mainly on ÅRL (SFS 1995:1554). That is, the usage of words related to judgment may depend on laws and frameworks that influenced the construction of K2 and K3. Moreover, the bars in the graph reflect each other, which means that when K2 experiences an increase or decrease in the need of judgment, so does often K3. Thus, some sections require more judgment than others and these sections tend to be the same in K2 and K3.

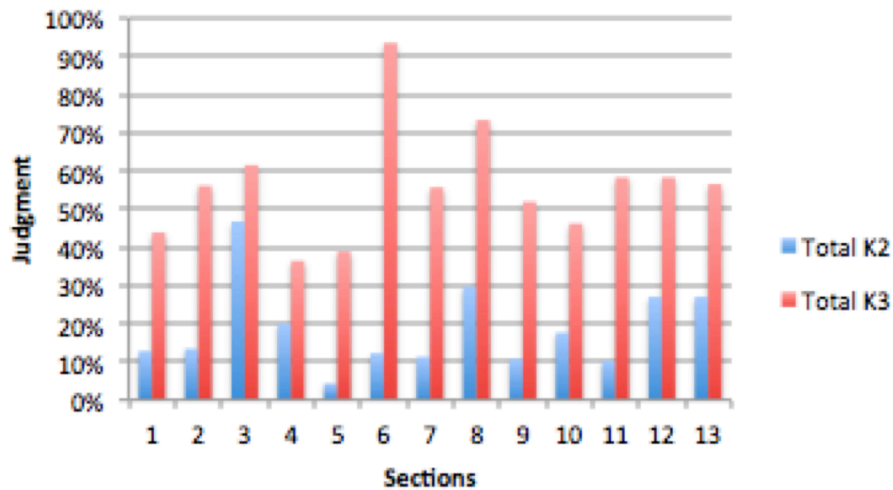


Figure 8 illustrates the level of required judgment in each section in K2 and K3 respectively.

Table 2 below illustrates the results from part 2 and 3 in terms of the level of general guidance and judgment in each section in K2 and K3.

	General words	Strict words	General guidance (%)	Judgmental words	Sentences	Judgment (%)
<b>Tangible and Intangible assets</b>						
1. Initial val.						
K2	3	13	23,1%	5	39	12,8%
K3	5	20	25,0%	18	41	43,9%
2. Depreciation						
K2	17	34	50,0%	18	134	13,4%
K3	12	31	38,7%	32	57	56,1%
3. Impairment						
K2	8	15	53,3%	21	45	46,7%
K3	4	34	11,8%	48	78	61,5%
4. Appreciation						
K2	2	4	50,0%	3	15	20,0%
K3	1	6	16,7%	4	11	36,4%
<b>Long term financial assets</b>						
5. Initial val.						
K2	5	15	33,3%	2	47	4,3%
K3	4	43	9,3%	35	90	38,9%
6. Impairment						
K2	4	15	26,7%	5	41	12,2%
K3	3	15	20,0%	29	31	93,5%
<b>Short term financial assets</b>						
7. Valuation						
K2	4	25	16,0%	7	62	11,3%
K3	7	38	18,4%	44	79	55,7%
<b>Stock-in-trade</b>						
8. General reg.						
K2	3	13	23,1%	11	37	29,7%
K3	4	4	100,0%	11	15	73,3%
9. Acq. val.						
K2	7	17	41,2%	7	65	10,8%
K3	11	24	45,8%	28	54	51,9%
10. NRV						
K2	5	10	50,0%	9	51	17,6%
K3	6	10	60,0%	12	26	46,2%
<b>Provisions</b>						
11. Valuation						
K2	7	26	26,9%	8	78	10,3%
K3	3	11	27,3%	14	24	58,3%
<b>Long term liabilities</b>						
12. Valuation						
K2	5	20	25,0%	10	37	27,0%
K3	2	27	7,4%	35	60	58,3%
<b>Short term liabilities</b>						
13. Valuation						
K2	5	20	25,0%	10	37	27,0%
K3	3	29	10,3%	35	62	56,5%
Tot.averageK2			34,1 %			18,7 %
Tot.averageK3			30,1 %			56,2 %

## 5.4 Additional analysis

A robustness test is performed in order to investigate the sensitivity in results related to the index model. By changing the criteria for each parameter within the index model by 1 point, the robustness of the results is tested. Therefore, the robustness of the method is reinforced if similar results are provided (Vander Heyden, Nijhuis, Smeyers-Verbeke, Vandeginste & Massart, 2001). The results of the study show that K2 receives a total score of 58 and K3 receives 76 points, showing a difference of 18 points. The robustness test provides results of K2 receiving 49 points meanwhile K3 receives 67 points, also resulting in a difference between the frameworks of 18 points. Below, the blue colored results show the total aggregated score of parameter 1-5 as presented in this study. Meanwhile, the red colored results reflect the aggregated score after performing the robustness test.

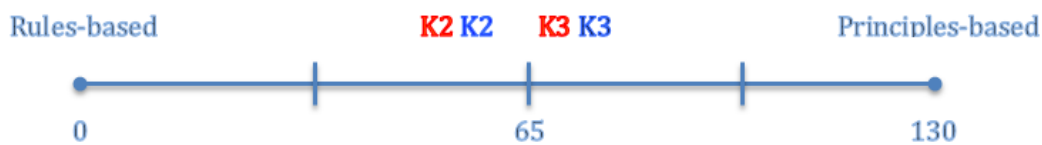


Figure 9 illustrates the total aggregated score before and after the robustness test is performed.

After performing the robustness test, K2 is still more rules-based compared to K3 regarding the parameters: possibilities, exceptions, conceptual framework and illustrative guidance. Also, K3 is still more rules-based compared to K2 regarding examples. However, a marginal shift towards a more rules-based approach for the aggregated score is shown. Still, the change in criteria of the robustness test does not result in any change in the relation between K2 and K3. Thus, the robustness of the method can be considered as strengthened. Even though the total change in points between K2 and K3 remains the same after performing the robustness test, the parameters are affected differently. As illustrated in table 3, conceptual framework has been one of the most affected parameters, showing a difference between the frameworks of 9 points after the robustness test compared to 4 points before. The large difference might depend on every section within K2 only receiving 0 points after performing the robustness test, implying that the criteria related to this parameter are inappropriately allocated in the test. To conclude, even though the criteria are changed for each parameter, the results are similar to before the change. This implies that the index model is not sensitive for small changes, which makes it more reliable and objective compared to if the results were to be significantly different after the change in criteria.



Parameters	Before robustness test	After robustness test	Total score before		Total score after	
			K2	K3	K2	K3
<b>Possibilities</b>			20	21	13	16
0 p	0	0-1				
1 p	1-2	2-3				
2 p	>2	>3				
<b>Exceptions</b>			6	10	12	13
0 p	>2	>3				
1 p	1-2	2-3				
2 p	0	0-1				
<b>Examples</b>			14	8	10	5
0 p	0-2	0-3				
1 p	3-4	4-5				
2 p	>4	>5				
<b>Conceptual framework</b>			8	12	0	9
0 p	0	0-1				
1 p	1	2				
2 p	>1	>2				
<b>Illustrative guidance</b>			10	25	14	24
0 p	>2	>3				
1 p	1-2	2-3				
2 p	0	0-1				
<b>Total points</b>			58	76	49	67

*Table 3 illustrates the total score in relation to each parameter before and after the robustness test is performed.*

## 6. Concluding remarks

### 6.1 Concluding discussion

There is an ongoing debate about the advantages and disadvantages of rules- and principles-based standards (Agoglia, Doupnik and Tsakumis, 2011; Benston, Bromwich and Wagenhofer, 2006; Schipper, 2003). However, in order to enable determination of the most suitable type of framework, rules- and principles-based characteristics must be identified (Dennis, 2008). This study contributes to research by attempting to define rules- and principles-based frameworks, enabling a future debate of the related advantages and drawbacks.

This study investigates BFN's statement, about K2 being rules-based and K3 being principles-based (BFN, 2015b; BFNAR, 2008:1; BFNAR, 2012:1), by performing a text analysis and developing an index model. A narrow investigation of parameters in previous research is performed and the recurrent parameters are selected and applied in an index model in order to enable classification of K2 and K3 as either rules- or principles-based. The results rely on the chosen parameters, which in this study differ from BFN's (2015b) foundation for investigation when classifying the frameworks. According to BFN (2015b), three parameters were considered; the level of detailed rules, number of possibilities and the level of judgment. This study extends the investigation by adding a number of parameters in order to increase the credibility of the classification of frameworks.

Bennet, Bradbury and Prangnell (2006) discuss the impossibility of labeling standards as either entirely rules- or principles-based. Instead the authors illuminate research that advocates the debate of rules- and principles-based characteristics using scales and relative terms. In accordance with previous authors, this study focus on classification of K2 and K3 in relative terms, that is analyzing the results of K2 in relation to K3. Furthermore, it might be problematic to discuss the results in absolute terms by labeling the frameworks as either entirely rules- or principles-based. Depending on how the criteria for each parameter are defined and how the scoring is performed, the results take different directions. However, the robustness of the method of this study has been tested, indicating solid results. Also, SEC (2003) and Dennis (2008) state that if standards contain almost all characteristics indicating a rules- or principles-based approach, it might be sufficient for classification. Also, Shortridge and Myring (2004) claim that one can consider a standard to be rules- or principles-based even though it practically includes some characteristics of the opposite approach, which supports analyzing the results in absolute terms. If the results from part one are analyzed in absolute terms instead of in relative terms, K2 receives 58 out of 130 points and K3 76 out of 130. The results in absolute terms imply K2 being more rules-based than principles-based and K3 being more principles-based than rules-based.

However, it is highly difficult to determine at what point on a given scale the frameworks should be classified as either rules- or principles-based. That is, if the possibility for a framework to receive 0 or 130 points is almost absent, the limiting value for classifying a

framework as either rules- or principles-based might be other than 65. Also, the possibility of receiving 0 points might be different compared to the possibility of receiving 130 points, which implies that the limiting value could be other than the central value. Hence, when discussing results in absolute terms, the subjectivity in the determination of the limiting value and the subjectivity of the scoring must be taken into consideration.

Furthermore, the results of part 2 and 3 are not affected by difficulties concerning the scoring process since the results are presented in relative terms as in percentage. Therefore, the results from part 2 and 3 enable classification in terms of to what extent the frameworks are either rules- or principles-based. These parameters are not depending on any subjective scoring process and the results can therefore, without being biased, be classified as either rules- or principles-based on a percentage scale. However, the difficulty of determining the limiting value still remains and must therefore be considered. Thus, independently of the investigation method, presentation in absolute terms might be misleading and subjective due to the difficulty of drawing the line of when frameworks should be classified as either rules-based or principles-based.

In literature, the need for judgment receives major focus when it comes to classifying frameworks and researchers illuminate the importance of judgment as a determinant in the classification of frameworks as either rules- or principles-based (Bradbury & Schröder, 2012; Simmonds & Lindahl, 1988; Cunningham, 2007; Wüstemann and Wüstemann, 2010; Schipper, 2003). If only taking the need for judgment into consideration, this study provides a clear and consistent result of K2 being more rules-based compared to K3 and K3 being more principles-based compared to K2. Consequently, the results show the most significant difference between K2 and K3 to be the wording rather than the substance. That is, as shown in parameter 7, the configuration of standards differs when it comes to vocabulary related to judgment, although, the underlying substance of the prescriptions in the two frameworks are closely related according to parameter 1-5.

Furthermore, the major focus on the need for judgment might lead to neglecting of other important parameters. Therefore, this study contributes by adding focus on additional parameters. By providing three contradicting results, this study shows that it is insufficient to only include one parameter when classifying frameworks. Moreover, the importance of each parameter must be further debated. That is, on the one hand, the major focus on the need for judgment and the minor focus on other parameters might imply that such parameters are weaker and inferior indicators when it comes to classifying frameworks. In such case, this could be the reason for excluding such parameters in the classification of accounting frameworks. On the other hand, the contradictory result of this study might imply the importance of including such parameters. Therefore, this study includes all the relevant parameters cited in literature.

To conclude, the results of the first part regarding the aggregated score implies K3 being more principles-based compared to K2. This is also the case regarding the third part related to the level of judgment. On the contrary, the second part regarding the level of general

guidance implies K2 being more principles-based compared to K3. Consequently, the results show that the classification of K2 and K3 as either rules- or principles-based is complex and not as straightforward as stated by BFN (BFN, 2015b; BFNAR, 2008:1; BFNAR, 2012:1). Therefore, this study is in line with authors such as Nelson (2003) who claims that there is no such thing as refined rules- or principles-based standards. However, in order to improve the process of classification of accounting frameworks, the development of index-models by using several parameters from previous research is of great importance. Finally, the study shows contradictory results in terms of providing different results depending on the investigated parameter. Therefore, this study indicates that K2 is not entirely rules-based and that K3 is not entirely principles-based.

## **6.2 Suggestion for future research**

Prior research in the field of rules- and principles-based accounting frameworks discusses advantages and disadvantages of the two approaches. This study shows the importance of classifying and defining the frameworks in order to enable the above-mentioned discussion. Therefore, a suggestion for future research involves further investigation in terms of using the developed index model in order to investigate other accounting frameworks such as IFRS and US GAAP. Also, in order to extend the investigation and to increase the possibility of classifying the complete K2 and K3 frameworks, we suggest future researchers to use the index model to investigate other sections within K2 and K3, as for instance recognition. Finally, in relation to the importance and inclusion of specific parameters, a suggestion for future research is to investigate the effects of adding or excluding parameters. This would contribute to the debate of what parameters that correctly reflects rules-and principles-based characteristics, which in turn contributes to the enabling of correct definitions of frameworks.

## List of References

Agoglia, C. P., Douppnik, T. S., & Tsakumis, G. T. (2011). Principles-based versus rules-based accounting standards: The influence of standard precision and audit committee strength on financial reporting decisions. *The Accounting Review*, 86(3), pp. 747-767.

Alexander, D., Britton, A., & Jorissen, A. (2011). International financial reporting and analysis. 5. Ed. Andover: South-Western Cengage Learning.

Alexander, D., & Jermakowicz, E. (2006). A true and fair view of the principles/rules debate. *Abacus*, 42(2), pp. 132-164.

Bakar, A., Sheikh, A., & Ameer, R. (2011). Readability of corporate social responsibility communication in Malaysia. *Corporate Social Responsibility and Environmental Management*, 18(1), pp. 50-60.

Bennett, B., Bradbury, M., & Prangnell, H. (2006). Rules, principles and judgments in accounting standards. *Abacus*, 42(2), pp. 189-204.

Benston, G. J., Bromwich, M., & Wagenhofer, A. (2006). Principles-versus rules-based accounting standards: the FASB's standard setting strategy. *Abacus*, 42(2), pp. 165-188.

BFN (2015a) *Välkommen till bokföringsnämnden*. Available: <http://www.bfn.se/start.aspx>. Last accessed 2015-03-03.

BFN (2015b) *Skillnader mellan K2 och K3*. Available: <http://www.bfn.se/aktuellt/skillnadslista-k2k3.pdf>. Last accessed 2015-05-06.

BFN (2015c) *K-projektet*. Available: <http://www.bfn.se/aktuellt/aktuelltprojekt.aspx#kregelverk>. Last accessed 2015-05-02.

BFN. (2015d). *Bokföringsnämndens vägledning- Årsredovisning och koncernredovisning*. Available: <http://www.bfn.se/REDOVISNING/VAG/VL12-1-K3-kons.pdf>. Last accessed 2015-05-10.

BFN. (2015e). *Bokföringsnämndens vägledning- Årsredovisning i mindre aktieföretag*. Available: <http://www.bfn.se/REDOVISNING/VAG/VL08-1-K2ab-kons.pdf>. Last accessed 2015-05-10.

BFN. (2015f). *Årsredovisning i mindre aktieföretag*. Available: <http://www.bfn.se/aktuellt/infok2mindre.aspx>. Last accessed 2015-05-10.

BFN (2008). Bokföringsnämndens allmänna råd om årsredovisning i mindre aktiebolag (K2). (BFNAR 2008:1). Stockholm: BFN.

BFN (2012). Bokföringsnämndens allmänna råd om årsredovisning och koncernredovisning (K3). (BFNAR 2012:1). Stockholm: BFN.

Biddle, G. C., Hilary, G., & Verdi, R. S. (2009). How does financial reporting quality relate to investment efficiency?. *Journal of Accounting and Economics*, 48(2), pp. 112-131.

Bokföringslag (SFS 1999:1078) Stockholm: Justitiedepartementet.

Bradbury, M. E., & Schröder, L. B. (2012). The content of accounting standards: Principles versus rules. *The British Accounting Review*, 44(1), pp. 1-10.

Bullen, H. G., & Crook, K. (2005). Revisiting the concepts: A new conceptual framework project. *Financial Accounting Standards Board*.

Collins, D. L., Pasewark, W. R., & Riley, M. E. (2012). Financial reporting outcomes under rules-based and principles-based accounting standards. *Accounting Horizons*, 26(4), pp. 681-705.

Collis, J. & Hussey, R. (2014) *Business Research: A practical Guide for Undergraduate & Postgraduate Students*. 4th edition. Basingstoke: Palgrave Macmillan.

Coy, D., & Dixon, K. (2004). The public accountability index: crafting a parametric disclosure index for annual reports. *The British Accounting Review*, 36(1), pp. 79-106.

Cunningham, L. A. (2007). Prescription to retire the rhetoric of principles-based systems in corporate law, securities regulation, and accounting, a. *Vand. L. Rev.*, 60, p. 1409.

Dennis, I. (2008). A conceptual enquiry into the concept of a 'principles-based' accounting standard. *The British Accounting Review*, 40(3), 260-271.

Dewing, I. P., & Russell, P. O. (2004). Accounting, auditing and corporate governance of European listed countries: EU policy developments before and after Enron. *JCMS: Journal of Common Market Studies*, 42(2), 289-319.

Drefeldt, C. & Törning, E. (2012). *Finansiell rapportering enligt K2 och K3*. Lund: Studentlitteratur

FASB. (2002). *Proposal for a principle-based approach to US standard setting*. Available: [http://www.fasb.org/cs/ContentServer?site=FASB&c=Document\\_C&pagename=FASB%2FDocument\\_C%2FDocumentPage&cid=1176157522715](http://www.fasb.org/cs/ContentServer?site=FASB&c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176157522715). Last accessed 2015-03-10.

FASB. (2013). International Convergence of Accounting Standards - an overview. Available: <http://www.fasb.org/jsp/FASB/Page/SectionPage%26cid=1176156245663>. Last accessed 2015-05-03

Flesch, R. (1948). A new readability yardstick. *Journal of applied psychology*, 32(3), p. 221.

Hronsky, J. J., & Houghton, K. A. (2001). The meaning of a defined accounting concept: Regulatory changes and the effect on auditor decision making. *Accounting, Organizations and Society*, 26(2), pp. 123-139.

IFRS. (2015). *IFRS FAQs*. Available: [http://ifrs.com/ifrs\\_faqs.html#q3](http://ifrs.com/ifrs_faqs.html#q3). Last accessed 2015-03-20.

Jacobsen, D, I. (2002). *Vad, hur och varför?: Om metodvalen i företagsekonomi och andra samhällsvetenskapliga ämnen*. Studentlitteratur, Lund.

Jamal, K., & Tan, H. T. (2010). Joint effects of principles-based versus rules-based standards and auditor type in constraining financial managers' aggressive reporting. *The Accounting Review*, 85(4), pp. 1325-1346.

Johansson, K. (2010). *Substance over form: en redovisningsrättslig studie*. Diss. Göteborgs Universitet, Sverige. Stockholm: Jure Förlag.

Johansson, B. & Svedner, P-O. (2006). *Examensarbetet i lärarutbildningen- Undersökningsmetoder och språklig utformning*. 4th ed. Uppsala: Kunskapsföretaget i Uppsala AB Läromedel & Utbildning.

Lawrence, A. (2013). Individual investors and financial disclosure. *Journal of Accounting and Economics*, 56(1), pp. 130-147.

Li, F. (2008). Annual report readability, current earnings, and earnings persistence. *Journal of Accounting and economics*, 45(2), pp. 221-247.

Loughran, T., & McDonald, B. (2011). When is a liability not a liability? Textual analysis, dictionaries, and 10-Ks. *The Journal of Finance*, 66(1), pp. 35-65.

Loughran, T., & McDonald, B. (2014). Measuring readability in financial disclosures. *The Journal of Finance*, 69(4), 1643-1671.

Marston, C. L., & Shrikes, P. J. (1991). The use of disclosure indices in accounting research: a review article. *The British Accounting Review*, 23(3), pp. 195-210.

Mintz, S. M. (2010). Linking virtue to representational faithfulness in making judgments in a principles-based environment. In C. Jeffrey (Ed.), *Research on Professional Responsibility and Ethics in Accounting* pp. 113-136. Emerald Group Publishing Limited.

Nelson, M. W. (2003). Behavioral evidence on the effects of principles-and rules-based standards. *Accounting Horizons*, 17(1), pp. 91-104.

Nobes, C. W. (2005). Rules-based standards and the lack of principles in accounting. *Accounting Horizons*, 19(1), pp. 25-34.

Nobes, C. & Parker, R. H. (2006). *Comparative international accounting*. New York: Financial Times Prentice Hall.

Norstedts Svenska Ordbok. (2015a). *Val*. Available: <http://service.wordfinder.com.ezproxy.ub.gu.se/extern/?user=wfonline@gu.se>. Last accessed 2015-04-08.

Norstedts Svenska Ordbok. (2015b). *Undantag*. Available: <http://service.wordfinder.com.ezproxy.ub.gu.se/extern/?user=wfonline@gu.se>. Last accessed 2015-04-08.

Norstedts Svenska Ordbok. (2015c). *Exempel*. Available: <http://service.wordfinder.com.ezproxy.ub.gu.se/extern/?user=wfonline@gu.se>. Last accessed 2015-04-08.

Peczenik, A. (1995). *Vad är rätt?: om demokrati, rättssäkerhet, etik och juridisk argumentation*. Stockholm: Fritze.

Schipper, K. (2003). Principles-based accounting standards. *Accounting Horizons*, 17(1), pp. 61-72.

SEC. (2002). *Study Report Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002*. Available: <https://www.sec.gov/news/studies/sox704report.pdf>. Last accessed 2015-04-10.

SEC. (2010). *Commission Statement in Support of Convergence and Global Accounting Standards*. Available: <http://www.sec.gov/rules/other/2010/33-9109.pdf> . Last accessed 2015-04-05.

Shortridge, R. T., & Myring, M. (2004). Defining principles-based accounting standards. *The CPA Journal*, 74(8), pp. 34-38.

Simmonds, N. E. & Lindahl, L. (1988). *Juridiska principfrågor: rättvisa, gällande rätt och rättigheter*. Stockholm: Norstedt.



Smith, Dag. (2006). Redovisningens språk. 3., rev. uppl. Lund: Studentlitteratur.

Stuebs, M. T., & Thomas, C. W. (2011). Principles-based accounting: The case for principled judgment. *Research on professional responsibility and ethics in accounting*, 15, pp. 47-73.

Sydserff, R., & Weetman, P. (1999). A texture index for evaluating accounting narratives: An alternative to readability formulas. *Accounting, Auditing & Accountability Journal*, 12(4), pp. 459-488.

Thorell, P., & Edenhammar, H. (2003). *Företagens redovisning: grundläggande räkenskapsförståelse*. Iustus förlag.

Tweedie, D., & Seidenstein, T. R. (2004). Setting a global standard: The case for accounting convergence. *Nw. J. Int'l L. & Bus.*, 25, p. 589.

Törning, E. (2013). *Principbaserat eller regelbaserat- Vad är enklast för CFO*. Available: <http://cfoworld.idg.se/2.13965/1.533416/principbaserat-eller-regelbaserat---vad-ar-enklast-for-cfo>. Last accessed 2015-05-02.

Vander Heyden, Y., Nijhuis, A., Smeyers-Verbeke, J., Vandeginste, B. G. M., & Massart, D. L. (2001). Guidance for robustness/ruggedness tests in method validation. *Journal of pharmaceutical and biomedical analysis*, 24(5), pp. 723-753.

Wüstemann, J., & Wüstemann, S. (2010). Why Consistency of Accounting Standards Matters: A Contribution to the Rules-Versus-Principles Debate in Financial Reporting. *Abacus*, 46(1), pp. 1-27.

Årsredovisningslag (SFS 1995:1554). Stockholm: Justitiedepartementet.

# Appendices

## Appendix 1

Abnormal	Onormal	Inferior	Underordnad
Accrual basis of accounting	Periodiseringsprincipen	Informed parties	Kunniga parter
Advantage	Nytta	Insignificant	Oväsentlig
Among others	Bland annat	Judge	Bedöma
An exception	Ett undantag	Judgment	Bedömning
Approximately	Ungefär	Large	Stor
As good as	Så gott som	Legitimate	Välgrundad
As little as possible	Så lite som möjligt	Likely	Sannolik
As much as possible	Så mycket som möjligt	Limited	Begränsad
Beneficial	Förmånlig	Logically	Logiskt
Best	Bästa	Low	Låg
Can	Kan	Low grade	Låg grad
Cannot	Kan inte	Mainly	Huvudsakligen
Clearly	Tydligt	May	Får
Clearly incorrect	Uppenbart felaktig	May not	Får inte
Common	Vanlig	May only	Får endast
Commonly accepted	Allmänt accepterade	Materiality	Individuell värdering
Conservatism principle	Försiktighetsprincipen	Minor	Mindre
Consider	Anses	Motivated	Motiverad
Considerable	Betydligt	Near future	Snar framtid
Consistency and comparability	Konsekvent tillämpning och jämförbarhet	Necessary	Nödvändig
Continuity principle	Kontinuitetsprincipen	Negative	Negativ
Current	Aktuell	No need for	Behöver inte
Despite	Trots	Normal	Normal
Determine	Avgöra	Not applicable to	Gäller inte
Direct connection	Direkt samband	Objective	Objektiv
Essential	Nödvändig	Obvious	Uppenbar
Estimate	Uppskatta	Offsetting principle	Kvittningsprincipen
Etc	Etc.	Outdated	Omodern
Evidence	Bevis	Periodically	Periodiskt
Expected	Förväntad	Present value	Nuvärde
Except	Med undantag av	Presume	Antas
Fair value	Verkligt värde	Rationally	Rationellt
For example	Till exempel	Reason	Skäl
Frequently	Frekvent	Reasonable	Rimlig, skälig
General advice	Allmänt råd	Recent	Nyligen
Generally accepted	Allmänt accepterad	Relative	Relativ
Generally accepted accounting principles	God redovisningssed	Relevant	Relevant
Generally available	Allmänt tillgänglig	Reliable	Trovärdig/tillförlitlig

Going concern	Fortlevnadsprincipen	Remaining	Bestående
Have to	Måste	Shall	Ska
High	Hög	Shall not	Ska inte
High degree	Hög grad	Significance	Betydelse
Homogenous	Homogen	Significant	Betydande
However	Dock	Similar	Liknande
If not	Om inte	Smallest identifiable	Minsta identifierbara
Imply	Tyda på	Specific character	Specifik karaktär
In some cases	I vissa fall	Substance over form	Ekonomisk innebörd framför juridisk form
Instead of	Istället för	True and fair view	Rättvisande bild
Independent	Oberoende	Unfavorable	Ogynnsam
Indication	Indikation	Usual	Sedvanliga
Indirect	Indirekt	Value-adding	Värdehöjande

## Appendix 2

		K2	K3	
Sections	Tangible and Intangible assets		Tangible	Intangible
1	Initial valuation	9:7-8, 10:8-15	17:6-20	18:13-23
2	Depreciation	10:16-28	17:12-20	18:18-23
3	Impairment	10:29-36	ÅRL 4:5	18:24
4	Appreciation	10:37-38	ÅRL 4:5	18:25
	<b>Long term financial assets</b>			
5	Initial valuation	11:06	Acquisition value: 11:14-16, 11:22-24	
			Fair value: 12:19-21	
6	Impairment	11:14-20	Acquisition value: 11:25-29	
			Fair value: 12:36-38	
	<b>Short term financial assets</b>			
7	Valuation	13:4-6:14:4-11	Acquisition v: 11:14-16, 11:17-21	
			Fair v: 12:19, 12:24-12:38	
	<b>Stock-in-trade</b>			
8	General regulations	12:3-6	13:3-4	
9	Acquisition value	12:7-12	13:5-9	
10	Net realizable value	12:13-17	13:10-13	
	<b>Provisions</b>			
11	Valuation	16:7-11	21:9-13	
	<b>Long term liabilities</b>			
12	Valuation	17:6-10	Acquisition v: 11:22-24	
			Fair v: ÅRL 14a-b, 12:22-35	

	<b>Short term liabilities</b>		
13	Valuation	17:6-10	Acquisition v:11:17-11:21
			Fair v: ÅRL 14a-b, 12:22-35

## Appendix 3

Parameters	Sections							
	1		2		3		4	
	K2	K3	K2	K3	K2	K3	K2	K3
<b>1. Possibilities</b>								
May	ÅRL 4:3	CM 18:3 (1) ÅRL 4:3 (3)	GA 10:16 GA 10:19 (2) GA 10:21 (2) GA 10:23 GA 10:24 GA 10:26 GA 10:27		GA 10:33	ÅRL 4:5 GA 27:9	ÅRL 4:6 GA 10:38	ÅRL 4:6
No need for			GA 10:19	CM 17:15	CM 10:32			
Can				CM 17:18 GA 17:19 CM 18:18				
<b>2. Exceptions</b>								
If not		GA 18:14 CM 17:7 ÅRL 4:3	GA 10:18 ÅRL 4:4	CM 17:13 CM 18:18 ÅRL 4:4	CM 10:32			
Instead of								
Except								
However	CM 10:8-9 (2)		ÅRL 4:4 CM 10:16-23 (2)		CM 10:31			
An exception				CM 17:13		GA 27:1 GA 27:17		
Not applicable if				GA 18:20				
Despite							GA 10:37	
In some cases								
<b>3. Examples</b>								
For example	GA 10:8 CM 10:8 (2) CM 10:11	CM 17:7 CM 18:14	CM 10:16-23 (2)	CM 17:13 (2) CM 17:16 (3) CM 17:17 CM 18:21	CM 10:32 (2) CM 10:29	CM 27:4 (2) CM 27:11		
Etc	CM 10:12							
Among others			CM 10:16-23 (2)					
General example					CM 10:31 CM 10:34			
<b>4. Conceptual framework</b>		True and fair view: CM 17:7 CM 18:13	Consistency: CM 10:16-22					

<b>5. Exemplifying guidance</b>	CM 10:9		CM 10:16-22 (12) CM 10:28		CM 10:32 CM 10:35-36			
<b>6. General / strict</b>	shall (8)	shall (17)	shall (25)	shall (26)	shall (13)	shall (26)	shall	shall (3)
	may not	may not (3)	may not (5)	may not (3)	may not	may not (8)	may not (2)	may not
	shall not (4)	may (4)	shall not (4)	shall not	cannot	may (2)	may only	may only (2)
	may (2)	can	may (12)	cannot	may (2)	can	may (2)	may
	can		can (4)	can (11)	can (5)	no need for		
			no need for (1)	no need for	no need for			
<b>7. Judgmental words</b>	similar	indirect (2)	limited	expected (10)	presume (2)	indications(5)	reliable	reliable
	direct con.	insignificant (4)	reasonable	estimate (4)	obvious (3)	presume (5)	significant	significant
	consider (2)	value-adding	clearly incorrect	insignificant	advantage	judgment (5)	remaining	normally
	reasonable	reasonable	judge	outdated	considerable	smallest identifiable		remaining
		similar	expects (3)	indication (4)	fair value	significant (6)		
		minor	best	significant (3)	significant (4)	independent (3)		
		essential	essential	judgment (3)	estimation	normal		
		fair value (2)	significant	reasonable (2)	normal	expect (5)		
		present value	mainly	evidence	expected	negative		
		reliable (2)	minor	likely	Near future	outdated		
		expected	normal (3)	reliable	outdated	near future		
		significant	similar	limited	indications	implies		
			considerable		reliable	essential		
			relevant		estimation	informed parties (2)		
					judgment-	similar		
						estimate (7)		
						reasonable (2)		

Parameters	Sections					
	5		6		7	
	K2	K3	K2	K3	K2	K3
<b>1. Possibilities</b>						
May	ÅRL 4:13 GA 11:10	GA 11:16 ÅRL 4:14a ÅRL 4:14d	ÅRL 4:5	ÅRL 4:5 GA 11:26 GA 11:27	ÅRL 4:13 ÅRL 4:9	GA 11:16 GA 11:17 GA 11:18 GA 11:20 ÅRL 4:14a ÅRL 4:14d
No need for		ÅRL 4:15	GA 11:17			ÅRL 4:15
Can					CM 13:4-6	

<b>2. Exceptions</b>						
If not	ÅRL 4:3	ÅRL 4:9 ÅRL 4:3 ÅRL 4:14a			ÅRL 4:9 (2)	ÅRL 4:9 (2) ÅRL 4:3 ÅRL 4:14a
Instead of						
Except		CM 12:34				CM 12:34
However	GA 11:7 CM 11:8		GA 11:17		GA 13:5 GA 14:7	
An exception		CM 12:32				CM 12:32
Not applicable to		GA 11:16				GA 11:16
Despite	GA 11:6				CM 13:5 CM 14:4	
In some cases		CM ÅRL 4:14d				
<b>3. Examples</b>						
For example	CM 11:8 CM 11:9 CM 11:12	CM 11:15	CM 11:14-16 CM 11:18	CM 11:25 (3)	CM 13:4-6 (2) CM 14:7-9 (3) CM 14:10-11	ÅRL 4:3 CM ÅRL 4:9 CM 11:15
Etc.						
Among others						
General example		CM ÅRL 4:3				
<b>4. Conceptual framework</b>	Conservatism: CM 11:6	True and fair view: ÅRL 4:15 General principles: CM 12:20 CM 12:31 Consistency: GA 12:32	Conservatism: CM 11:17		Conservatism: CM 14:4	True and fair view: ÅRL 4:15 General principles: CM ÅRL 4:9 CM 12:20 CM 12:31 Consistency: GA 12:32
<b>5. Exemplifying guidance</b>	CM 11:13 (2) CM 11:6 CM 11:8 CM 11:9 CM 11:11		CM 11:17-19 CM 11:20		CM 14:7-9	
<b>6. General / strict</b>	shall (13)	shall (34)	shall (13)	shall (15)	shall (22)	shall (30)
	may not	may not (5)	may only (2)	may (3)	may not	may not (4)
	shall not	shall not	may		shall not (2)	may only
	may (2)	cannot	can (2)		may (2)	shall not
	can (3)	have to	no need for		can (2)	cannot
		may only				have to
		no need for				may(5)
		may (3)				can
						no need for
<b>7. Judgmental words</b>	similar	significance (4)	presume	remaining (2)	estimate	significant (4)
	determine	present value	remaining	presume	similar (3)	present value
		expected (2)	judge (2)	judge	reasons	fair value
		fair value	reason	indication (2)	relevant	expected (2)
		normally (4)		significant (3)	reliable	relevant
		commonly accepted (3)		reasons (2)	presume	reliable (3)
		specific character		likely	abnormal	approximately

		reliable (2)		implies (2)		likely
		informed parties		negative		negative
		independent		unfavorable		special character
		similar (2)		expected (2)		commonly accepted (3)
		estimations (2)		estimation (2)		similar (2)
		recently (2)		fair value		reasonable (5)
		usual		present value		normally (4)
		generally available		judgment (4)		commonly available
		reasonable (3)		consider		informed parties
		as much as possible		motivated		independent
		as little as possible		objective		usual
		judgment				recently (2)
		reasons				high grade
						low grade
						current
						common
						estimations (2)
						judgment
						reasons

Parameters	Sections					
	8		9		10	
	K2	K3	K2	K3	K2	K3
<b>1. Possibilities</b>						
May	CM 12:3 GA 12:5 ÅRL 4:12	ÅRL 4:12 ÅRL2:4 GA 13:4	ÅRL 4:11 GA 12:8	ÅRL 4:11 CM 13:5 ÅRL 4:3 (2)	CM 12:13-17 ÅRL 4:9	ÅRL 4:9
No need for					CM 12:13-17	
Can				CM 13:9:1 CM 13:9:2		CM 13:13:2
<b>2. Exceptions</b>						
If not	ÅRL 4:9.	ÅRL 4:9	ÅRL 4:9	ÅRL 4:9		
Instead of						
Except	CM 12:4-5					
However					CM 12:14 CM 12:17	
An exception			GA 12:10			
Not applicable if						
Despite			GA 12:10			
In some cases		CM ÅRL 4:9				
<b>3. Examples</b>						
For example	CM 12:3 (3) CM 12:4-5	CM 13:3	CM 12:7 (2) CM 12:9	CM 13:6 CM 13:7 (2) CM 13:8 (2) CM 13:9 (3)	CM 12:13-17 (5)	CM 13:13:2 CM 13:13:2 (2) CM 13:13:3

Etc.						
Among others						
General example					GA 12:15	
<b>4. Conceptual framework</b>	Consistency: CM 12:3-6		Consistency: CM 12:9	True and fair view: CM 13:7		Consistency: CM 13:13:2
<b>5. Exemplifying guidance</b>	CM 12:3-6 CM 12:6		CM 12:8 CM 12:12 (2)		CM 12:14	
<b>6. General / strict</b>	shall (10)	shall (4)	shall- 13	shall (22)	shall (8)	shall (10)
	may not (2)	may (3)	may not- 3	may not	may not	may
	may only	can	shall not-1	shall not	shall not	can (5)
	may (2)		may-4	may (5)	may	
	no need for		can-3	can (6)	can (3)	
					no need for	
<b>7. Judgmental words</b>	consider (2)	similar	similar (3)	similar (6)	reason	reasons
	relevant	significant (2)	relevant	consider	normal (2)	normal
	judge	reasons	reliable	normal (3)	judge (4)	estimated (2)
	inferior	judgment	approximately	expected	reliable	necessary
	significant	homogenous	reasonable	indirect	in some cases	outdated
	presume	consider		reasonable		judgment (2)
	relative	relevant (2)		insignificant (3)		reliable
	judgment	reliable		abnormal (3)		approximately
	obvious	approximately		relatively		periodically
	homogenous			significant		reasonable
				logically		
				approximation (2)		
				low		
				high		
				normal situation		
				necessary		

Parameters	Sections					
	11		12		13	
	K2	K3	K2	K3	K2	K3
<b>1. Possibilities</b>						
May	GA 16:10 (2) GA 16:11	GA 21:10	GA 17:9 ÅRL 4:13 CM 17:10	ÅRL 4:14a ÅRL 4:14d	GA 17:9 ÅRL 4:13 CM 17:10	ÅRL 4:14a ÅRL 4:14d GA 11:18
No need for						
Can						
<b>2. Exceptions</b>						
If not	GA 16:12			ÅRL 4:14a		ÅRL 4:14a
Instead of				ÅRL 4:14d		ÅRL 4:14d
Except		GA 21:12				
However	GA 16:13 GA 16:14		CM 17:9 GA 17:10		CM 17:9 GA 17:10	
An exception				CM 12:32 CM 12:34		CM 12:32 CM 12:34



Not applicable if				GA 11:23 GA 11:24		GA 12:23
Despite			CM 17:8		CM 17:8	
In some cases						
<b>3. Examples</b>						
For example	GA 16:7 (2) CM 16:7 CM 16:12-14 (2)	GA 21:10	CM 17:9		CM 17:9	
Etc.						
Among others						
General example	CM 16:10 (2)					
<b>4. Conceptual framework</b>			Consistency: CM 17:10	General principles: CM 12:22 General principles: CM 12:31 Consistency: GA 12:32	Consistency: CM 17:10	General principles: CM 12:20 CM 12:31 CM ARL 4:9 Consistency: GA 12:32
<b>5. Exemplifying guidance</b>	CM 16:7 (2) CM 16:8 (2)	CM 21:9	CM 17:10		CM 17:10	
<b>6. General / strict</b>	shall (23)	shall (7)	shall (18)	shall (23)	shall (18)	shall (23)
	may only (1)	may not (2)	may not	may not (3)	may not	may not (4)
	cannot (2)	shall not	shall not	may only	shall not	may only
	may (4)	may only	may (4)	may (2)	may (4)	have to
	can (3)	may	can		can	may (3)
		can (2)				
<b>7. Judgmental words</b>	normal (2)	estimation (2)	insignificant	fair value	insignificant	clearly
	consider	present value	reasonable	normally (4)	reasonable	beneficial
	presume (2)	significant	legitimate	special character	legitimate	fair value
	reasons	judgment	normal	commonly accepted (3)	normal	normally (4)
	expected	expected (3)	similar	reliable (2)	similar	special character
	judge	rationally	determine	informed parties	determine	commonly accepted (3)
		independent	consider	independent	consider	reliable-2
		large amount	relevant	similar (2)	relevant	informed parties
		minor	reliable	reasonable (5)	reliable	independent
		major	approximately	frequently	approximately	similar (2)
		as good as		generally available		reasonable (5)
				usual		frequently
				recently (2)		generally available
				significant (3)		usual
				estimations (2)		recently (2)
				expected		significant (3)
				judgment		estimations (2)
				reasons		expected
				high degree		judgment
						reasons

