



UNIVERSITY OF GOTHENBURG  
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Autumn 2015

# **The including of rent for premises as costs for leases**

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**Compliance with disclosure requirements for leases in K3  
regarding rent for premises**

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## **Acknowledgements**

We have gained a lot of knowledge of the K3 regulatory and accounting choices through our research. It has been a fun and interesting time, but also very demanding. We would like to thank the teachers, opponent groups and students at the School of Business, Economics and Law at Gothenburg University whose contributions with ideas and comments helped us immensely.

We would like to thank our tutors Marita Blomkvist and Anna-Karin Pettersson. Thank you both for the good advice and valuable comments!

Gothenburg, January 2016

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## **Abstract**

In recent years, Swedish accounting has undergone major changes, particularly regarding the K3 regulatory framework. Bigger companies whose financial year began after December 31, 2013 have to comply with K3, however, K3 compliance is optional for smaller companies who could instead choose to comply with K2. We have discovered some companies in the trade industry do not include rent for premises in lease disclosures, which is, compared to previous regulations, a new requirement for K3.

The purpose of the thesis is to not only investigate to what extent K3 compliant companies include rent for premises in the disclosure of leases, but also to investigate underlying factors as to whether or not rent for premises is included in the lease disclosures.

We have, based on two existing theories and previous research, formed hypotheses that we have tested in order to find explanations for the companies' accounting choices and lack of disclosure regarding the rent for premises. Previous research has mostly dealt with earlier standards in Sweden and the IFRS. However, we focused on the K3 in our study using a quantitative method based on company annual reports from 2014. It turned out that 56 of our total sample of 178 companies did not include rent for premises in the disclosure for leases.

We conducted a regression analysis which shows that the agency theory, stakeholder perspective and previous research about the relationship between information and audit firms can explain the omission of rent for premises in the disclosure of leases.

## **Abbreviations**

**BFL** – The Swedish Book-keeping Act

**BFN** – The Swedish Accounting Standards Boards

**IFRS** – Financial Reporting Standard

**RR** – Swedish Accounting Standards Council

**SPSS** – Statistical Package for the Social Sciences

**Swedish GAAP** – Swedish Generally Accepted Accounting Principles

**ÅRL** – The Swedish Annual Accounts

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# 1. Introduction

## 1.1 Background

Recently, the regulation of Swedish accounting has undergone major changes. A large part of the changes are The Swedish Accounting Standards Boards (BFN). The K-project whose aim is to simplify the process of accounting by establishing standardized regulations for each type of businesses instead of one regulation for each accounting issue. This was done by dividing the companies into four groups: K1, K2, K3 and K4 and the respective category will include all rules relevant to the group (Drefeldt & Törning 2012). From the financial year 2014 companies had to decide which of the K regulations they wanted to comply with. Bigger companies whose financial year began after December 31, 2013 had to comply with K3, but for smaller companies it was only optional and could instead comply with K2. This means that as this thesis is being written, in 2015 - the companies that fall into category K3 have recently started to comply with this regulation in their accounting (BFN 2013). K3 constitutes the main legal framework and is partly based on the international regulations IFRS for SMEs, which International Accounting Standard Board (IASB) issued for non-listed companies and can be considered as a simplified version of International financial Reporting Standards (IFRS). Since accounting in Sweden has a strong connection with taxation, adjustments have been made to tax regulations and The Swedish Annual Accounts Act (ÅRL) (Drefeldt & Törning 2012).

As K3 is principle-based it allows for the possibility to interpret its content, which should reasonably raise the question if Swedish companies are complying with the regulation in a consistent way. Similar problems have been encountered in attempts to harmonize the accounting of Europe member countries in order to achieve the comparability and transparency of crossborder financial statements. As part of the harmonization process, The European Parliament made the decision that from 2005 all listed companies have to consolidate account statements in accordance with the provisions of the IFRS and International Accounting Standard (IAS) (Marton et al. 2012). This type of harmonization is called "De jure" or also Formal Harmonization in which the goal is to obtain harmonization through regulation. The second type of harmonization "de facto", also called Substantive Harmonization, creates harmonization through the consistent practice of accounting among companies. Even if the expectation is for the formal harmonization to lead to substantive harmonization, the relationship is not entirely clear. Formal harmonization may even lead to negative effects on harmonization by accounting choices and interpretations of the regulations (Canibano & Mora, 2000). Furthermore, prior research found that considerable differences between the countries' institutions, such as laws, audit and supervision counteract the process

for uniform accounting by IFRS endeavors. It has been established that institutions have an affect that makes companies disregard international accounting standards for the benefit of institutional laws (Wysocki, 2011). Therefore, formal harmonization does not lead to substantive harmonization under these kinds of conditions.

Since the relationship between formal harmonization and substantive harmonization is not as strong in some cases, it is a legitimate question to ask whether the Swedish financial statements are consistent among the domestic companies.

The relatively new K-regulation from 2014 is mandatory for bigger companies and can mean major changes for companies that previously applied different standards. For instance, changes have been made regarding new disclosure requirements for leasing which now include rent for premises (Far Academy 2014).

## 1.2 Problem Discussion

BFN, according to The Swedish Book-keeping Act (BFL), is responsible for the development of Swedish Generally Accepted Accounting Principles (Swedish GAAP), which in other words means that if a company follows the advice and guidelines presented by BFN, it also automatically follows the Swedish GAAP. However, if one deviated from BFN, it would consequently be an act of breaking the law (BFN 2015).

What is defined as Swedish GAAP can be interpreted from the preparatory works to BFL, which defines it as accounting practice; what companies actually do. Problems would arise if it turned out that companies actually did not follow the guidelines provided by BFN, which would consequently mean that these companies had been breaking the law (Albanson & Törning 2015). Alternatively, one can also argue that if the guidelines provided by BFN do not reflect business practices then instead of the companies adapting to the regulations, the regulations should adapt to the current practice.

The purpose of the mandatory disclosures is to streamline the economy by reducing the information asymmetry between management and the company's stakeholders. This will consequently have a positive impact on the capital market and tax system. Disclosure contributes in other words that the purpose of accounting is achieved, and therefore it is important for companies to provide the right information in the annual report Furthermore, inconsistent accounting creates problems for users to compare financial statements between companies, for instance, in the same branch of industry (Marton 2013).

Previous research on accounting choices for disclosures have been made by Amiraslani et al. (2013) which indicates shortcomings in compliance with the disclosure requirements of listed companies applying IFRS. Amiraslani et al. (2013) investigated in



this case disclosures regarding IAS 36, Impairment of Assets and found that the information provided by companies that requires management involvement tends to have flaws. Another study made by Verriest et al. (2013) found that corporate governance was a factor that determined the quality of the information. They identified that companies that have strong corporate governance tend to achieve the disclosure requirements to a greater extent compared with companies that had weak corporate governance.

Unlike these studies, which are limited to IFRS and larger listed companies, we want to examine compliance with disclosure requirements and which factors affect deviations from the requirements in the Swedish context. Since K3 as from 2014 become mandatory and involves changes in disclosure requirements for leasing, we will examine this disclosure in the companies that apply K3 in order to find out to what extent the requirements are met and what affects any eventual deviation.

### 1.3 Research Questions

From the problem discussion two research questions were defined:

"To what extent do companies that apply K3 include rent for premises in the disclosures for leases?"

"What factors could be behind whether or not rent for premises is included in the disclosure of leases?"

### 1.4 Purpose

The purpose of this thesis is to examine to what extent companies who comply with K3 achieve the requirements for the leasing disclosure. Furthermore we will create hypotheses of possible factors that have an impact on whether or not disclosure requirements are met. Based on the results of the data a possible pattern will be identified in order to understand the phenomena.

### 1.5 Outline

#### **Chapter 2: Theoretical Framework**

This chapter will begin with describing disclosures in general: mandatory disclosures, criticism of disclosures, and disclosure requirements in K3 and prior regulations. The chapter continues with presenting the selected theories, previous research and our hypotheses.

### **Chapter 3: Method**

In the method chapter, we will present the method of this thesis and the research approach we have chosen to use. In this chapter we also present the selection of information channel, data acquisition and the databases we used. This is followed by an operationalization of the data where the dependent variable along with the independent variables are presented.

### **Chapter 4: Empirical Results and Analysis**

In this chapter we firstly present the result from our quantitative research, which will answer how many companies have and have not included rent for premises in the disclosures of leases. Then follows descriptive statistics, which will show the basic features of the data collected in this study. In order to establish whether or not the independent variables correlate with each other a bivariate correlation analysis will be presented and discussed. Lastly, as part of the study's analysis a binary regression analysis will interpret the data collected and answer if the hypotheses can correctly explain the variation of the dependent variable.

### **Chapter 5: Conclusions, Discussions and Further Research**

This chapter will present the conclusions that we have drawn and a discussion will take place around them. Finally, a suggestion for future research will be provided.

## 2. Theoretical Framework

*This chapter will begin with describing disclosures in general: mandatory disclosures, criticism of disclosures, and disclosure requirements in K3 and prior regulations. The chapter continues by presenting previous research and selected theories from which we create our hypotheses. Two of the hypotheses are partially created from theories: the agent theory and the theory of the stakeholder perspective, whereas the rest of the hypotheses are created from previous research. Lastly, the hypotheses are summarized and illustrated in a figure in order to get an overview of the theoretical framework.*

### 2.1 Disclosures in General

Marton (2013) defines disclosures as additional information that is outside the balance sheet and income statements but are linked to them. By explaining and presenting the assessments that have been made, the user of the financial reports is given the opportunity to evaluate whether or not the management have made reasonable judgments. Another function of the disclosures is to provide detailed information of the items on the balance sheet and income statement which otherwise would take up too much space. In order to rightfully describe the company's finances, larger and listed companies with complex economic structures must disclose more information in their financial reports.

### 2.2 Mandatory Disclosures

The purpose of the mandatory disclosures is to fulfill what traditional accounting intends to do: reducing the information asymmetry between the company's management and its stakeholders. To accomplish this task, it is not sufficient merely using a balance sheet and income statement and implementing mandatory disclosures will hopefully lead to more efficient capital markets and tax systems. In addition to financial objectives and stakeholders' needs for information, there may be political objectives with mandatory disclosures such as gender equality and environmental issues. In Sweden there is a requirement to disclose the gender balance of staff, and the idea is that by supplying information, companies also actively work to maintain a gender balance in the workplace (Marton 2013).

A study done by Glaum et al. (2012) examined the compliance of mandatory disclosures of European companies that followed IFRS and found that there was significant non-compliance. The study focused on IFRS 3: Business Combinations and IAS 36 Impairment of Assets and from the results they identified that the compliance was determined by company and country-specific factors. Factors on a country level were identified as the strength of the enforcement system and the size of the national stock

market. Lastly, the factors on the company level were as follows: the importance of goodwill positions, prior experience with IFRS, type of auditor, the existence of audit committees, the issuance of equity shares or bonds in the reporting period or in the subsequent period, ownership structure and industry.

### 2.3 Criticism of Disclosures

In previous studies it has been concluded that information is costly to the individual company but favorable for the economy at large. There is a demand from external stakeholders, particularly shareholders, to reduce the information asymmetry and it is the task of accounting to reduce and manage this (Marton 2013). Ijiri (1983) explains that the principle of information that flows between the accountant and the accountee is not as simple as total transparency and lack of information asymmetry; instead there are other aspects that must be taken into account. Disclosure of mandatory information is not just for the accountee, but is also a protection for the accountant that indicates the limit of how much information one has to disclose in the financial statements. If the financial statements include all the information, there will be a risk that this could harm the company, such as competitive disadvantages and trade secrets that would be revealed. In addition to the information itself, the process of producing the information constitutes harm to the company through monetary costs and opportunity costs. The process of finding information and having them audited represents costs in both monetary form and in time which could have been used in operational projects. Much of the criticism that has been directed towards IASB by companies is that they require information from companies without taking into account if the cost exceeds the benefit, or if all information that is required is in fact material (Marton 2013).

Some companies disclose information even though it may entail costs as described above and according to Skinner (1994) this information is regarded as more reliable thus allowing the company to maintain its trust with stakeholders. However, the absence of information may not necessarily mean bad news for stakeholders and the consequence of this interpretation may give a false interpretation of the company's value. Stakeholders are in fact perfectly aware that management has incentives to omit bad news in the financial statements in order to prevent "disclosure costs". A behavior pattern that Patell-Wolfson (1982) found in their study was that companies in the stock market tend to disclose the good news early in the trading day while the bad news is presented rather close to the end of the trading day.

## 2.4 Disclosures for Leases – According to K3 and Prior Regulations

According to K3, the following information must be included in the disclosures for leases presented by the lessee:

- Future minimum lease payments at balance sheet date within one year, later than one year but within five years and later than five years.
- The total sum of the financial year's lease costs.
- General description of agreements of significant leases.

In Chapter 2 of K3 the concepts and principles detail what companies must follow in their financial reports. These concepts and principles are however not prioritized over what is stated in the law, other regulations or specific rules in K3. As the disclosure requirements presented above are prioritized, they cannot be omitted because of “materiality” or “the balance between cost and benefit” stated in that chapter.

Before the K project, The Swedish Accounting Standards Council (RR) together with BFN were responsible for the development of Swedish GAAP by giving out advice and recommendations. RR published recommendations for several years that were intended for companies whose shares are traded on the Swedish stock exchanges. BFN adapted the recommendations from RR to better suit non-listed companies (Derfeldt & Törning 2012).

The regulation for leases in BFN is described in BFNAR 2000:4 and leases for RR is described in RR 6:99. BFNAR 2000:4 should correspond to RR 6:99, with some exceptions in order to simplify the disclosure requirements for non-listed companies. BFN requires considerably less comprehensive disclosures than RR regarding leases and these differences are presented in BFNAR 2000:4. The biggest differences are that rent for premises is excluded from the lease costs, no demand for specific information about the future minimum lease payments, contingent rents, leasing income and descriptions of essential agreements of leases over the financial period. (BFNAR 2000:4).

In earlier standards, BFNAR 2000:4, there was thus an exception from including rent for premises in the disclosure for leases. This exception is however not found in K3 and the rent for leases is to be included in the companies' disclosures (PwC 2012). In other words, the disclosure requirements in K3 is considered to be more demanding and a big change for companies that previously complied with BFNAR 2000:4.

## 2.5 Selection of Audit Firm

The decisions made at the audit firm should be rational, provided that the persons who are doing the audit have the knowledge required for auditing. According to Collin et al. (2008), auditors are a professional group who can use their knowledge to exert pressure on companies by requiring the companies to adapt to the auditors' structures, therefore steering organizations in the direction that they see fit. If the company opposes the auditors, it can result in a modified auditor's report. Therefore, Collin et al. (2008) established that companies audited by one of the big audit firms would disclose more information.

According to previous research by DeAngelo (1981), it is clear that the size of the auditing firm has a direct impact on whether or not errors are reported. The starting point was that the major audit firms -unlike smaller ones - have a larger customer base, startup costs and transaction costs, all of which enable the auditor to make client-specific quasi-rents. If the auditors choose not to report a "material" error in the hope that customers would remain loyal, a potential risk will arise: other customers, who prioritize good audit quality will discover the auditor's misconduct and choose another audit firm. It was therefore concluded that the major audit firms performed audits of a higher quality as the risk of loss of quasi-rents were higher due to a large customer base.

Several researchers have come up with the same conclusions, as an example, O'Keefe and Westort (1992) identified a higher degree of specialization and technological knowledge among the major audit firms as something that contributed to a positive correlation between size and quality. The accumulated knowledge is then passed on within the company through extensive personnel education. Camfferman & Cooke's (2002) study of the comprehensiveness of disclosure in UK and Dutch companies also showed a relationship between choice of audit firms and level of disclosure using dummy variables: Big 6 or not Big 6. The study showed that there is a positive relation between Big 6 audit firms and the level of disclosures.

The study done by Camfferman & Cooke (2002) is as mentioned above done in UK and Netherlands but we believe that choice of audit firm among companies can be comparable on Swedish companies. The reason behind that is because we believe the mindset regarding choice of audit firms is kind of similar in northern Europe. The previous research in general that is mentioned above is relevant for us because we want to find out if there is a difference between big four audit firms and smaller audit firms regarding the inclusion of rent for premises in the disclosure of leases and we believe that our hypothesis which has its base in the previous research can help us answer our question.

**Hypothesis 1: There is a relationship between choice of audit firms and the inclusion of rent for premises in the disclosure of leases.**

## 2.6 The Size of the Company

Agent theory can explain the relationship between different stakeholders and their preferences, but the focus is on the relation between agent and principal (Deegan & Unerman, 2006). The most usual example used in this instance is the relationship between shareholders and corporate management. There may be an imbalance between them due to the asymmetrical information that occurs and which in turn can create uncertainty. The uncertainty is based on the idea that the principals wants their return of equity to be maximized while the agents wants to maximize their income (Saam, 2007). Agent theory reveals how a principal can handle this uncertainty by making the agent act according to the principal's needs by using accounting information to reduce the information asymmetry and thus controlling the agent. This is based on the theory's assumption that individuals are rational and maximizing their resources, which can lead to conflicts between them (Deegan & Unerman, 2006).

As mentioned above, the imbalance between principal and agent is often based on information asymmetry, which could create so-called agency costs. Since these costs increase as the business grows larger, companies tend to disclose information on a larger scale to reduce this cost. Therefore we find this factor interesting in using as an independent variable. Furthermore, there are other factors that explain the link, i.e. larger companies have more complex business structures that require a higher degree of disclosures (Cooke, 1989). However, according to Deegan & Unerman (2006), the cost of these conflicts could be avoided by a well-functioning organization. It is believed that the core of the agent theory is incentive problems. One way to avoid these incentive problems is to hire an independent auditor (Deegan & Unerman, 2006).

The essential research in agent theory is mainly used to not only find answers on how accounting, compensation schemes and information is affecting incentive problems, but also on how the existence of these problems affect the structure and design of the financial reports (Deegan & Unerman 2006). Previous studies show that company size matters when it comes to quality of information. For example, a larger company with more resources is able to spend more on its accounting department in relation to smaller companies. This allows for a higher quality of accounting and disclosures (Glaum et al. 2012). Especially the study done by Glaum et. al (2012) and the discussion regarding information asymmetry were key factors in which we believe that there is a significant relationship between the size of the company and whether the company includes the rent for premises in their disclosure of leases. Agent theory together with the previous research led us to our second hypothesis.

**Hypothesis 2: There is a relationship between the size of the company and the including of rent for premises in the disclosure of leases.**

## 2.7 Debt-to-equity and part of a group

Debt contracts give corporate management incentives to affect how financial reports are presented in order to satisfy the stakeholders, which brings us to the stakeholder perspective. Company legitimacy is created through the relationship between the company and its stakeholders and for this reason it is important for the company to establish good relations with its stakeholders. Stakeholder impact may differ depending on the influence that the stakeholders have on the company. Greater influence over the company creates a greater chance for the company to follow their guidelines. However, this does not mean that the company only has a certain obligation towards larger groups of stakeholders, in fact, it has the same obligations to all stakeholders. Examples of groups that have a greater influence on companies is banks, investors and owners (Hill & Jones 1992). Companies with higher debt to equity ratio are generally under greater supervision of creditors who use information in the financial reports to ensure that they do not violate the loan agreement (Jaggi & Low 2000). Since the companies who are heavily indebted is under greater supervision we believe the companies are more accurate in their provision of information in the financial reports. Therefore the debt-to equity ratio is another key factor that can help us answer the question whether some companies includes the rent for premises in their disclosure of leases and why some companies do not.

Jensen and Meckling (1976) claimed that firms with higher debt to equity ratio would have larger agent costs, the concept that we described in the previous chapter. To reduce agent costs, it is expected that companies that are heavily indebted will provide more information in their financial reports (Watson et al. 2002).

**Hypothesis 3: There is a relationship between the debt to equity ratio and the including of rent for premises in the disclosure of leases.**

Furthermore, the stakeholders' perspective also gives us our fourth and final hypothesis which involves groups. When a company belongs to a group, it increases the amount of stakeholders they have since the group's stakeholders also becomes the company's. As mentioned above, companies have obligations towards all the stakeholders, which means a higher demand for information is to be considered in the financial reports (Hill & Jones. 1992). It goes without saying that this is an interesting relationship to explore because of the major numbers of stakeholders that are added to the company belonging to a group. Shareholders are very interested in the financial statements of the company because they have invested money and would then of course have a return on their money. Key figures in the financial statements are a good tool for measuring potential future returns. That gives companies incentives to provide more information in their annual reports in order to keep their stakeholders satisfied. Since the shareholders increases when a company becomes part of a group we believe this also is a key figure



whether a company includes the rent for premises in their disclosure of leases and why some do not (Jaggi & Low 2000).

Also, the amount of information in the financial reports may differ depending on who creates them. Pettersson (2015) describes in her thesis an example where a company previously hired an affiliated company to draw up its annual report. The content of the information was often standardized in order to minimize costs, which limited the possibilities of establishing complete business information. Later, the parent company itself took over the reporting of its financial statements, which gave greater freedom to disclose more information without any additional costs. This resulted in a more complete annual report and the disclosures increased significantly. With our final hypothesis, we test if there is a relation between the including of rent for premises in the disclosure of leases and if the company is part of a group.

**Hypothesis 4: There is a relationship between if the company is part of a group and the including of rent for premises in the disclosure of leases.**

## 2.8 Summary of the Hypotheses

The conclusion of the theoretical framework has created several hypotheses, which are summarized below in the order they were presented in the text. We have also created a hypotheses model (figure 2.1), which summarizes the factors that can explain whether or not companies include rent for premises in the disclosure of leases.

**Hypothesis 1:** There is a relationship between the choice of audit firm and the including of rent for premises in the disclosure of leases.

**Hypothesis 2:** There is a relationship between the size of the company and the including of rent for premises in the disclosure of leases.

**Hypothesis 3:** There is a relationship between the debt-to-equity and the including of rent for premises in the disclosure of leases.

**Hypothesis 4:** There is a relationship between if the company is part of a group and the including of rent for premises in the disclosure of leases.

The purpose of this thesis is to examine to what extent companies who comply with K3 achieve the requirements for the leasing disclosure regarding rent for premises and furthermore, to create hypotheses of possible factors that have an impact on whether or not these disclosures requirements for leases are met. Based on this purpose, we have created our theoretical framework and hypotheses from the agent theory, the theory of stakeholders' perspective and previous research. The theories together with previous research have been the basis for the creation of four hypotheses, which we later on will statistically test in relation to the including of rent for premises in the disclosure of leases. The first hypothesis was choice of audit firm. The choice of audit firm can influence whether compliance with the regulation is achieved due to the level of knowledge and the quality of the audit at the audit firm (DeAngelo, 1981; O'Keefe & Westort, 1992; Cafferman & Cooke, 2002). The second hypothesis was the size of the company. Bigger companies, in relation to smaller companies, have the resources to ensure complete disclosures in the financial reports and by revealing more information the information asymmetry tends to decrease (Deegan & Unerman, 2006; Glaum et al. 2012). This should create a positive relationship between disclosure of information and the company size. Finally, through the stakeholders' perspective we have created the hypotheses that debt-to-equity and part of a group are variables that influence whether or not companies disclose sufficient information and in this case regarding the disclosures of leases. Companies that are part of a group have more stakeholders to satisfy with information and the same is true for companies that are heavily indebted and thereby have creditors who demand a certain level of information (Jaggi & Low 2000; Hill & Jones, 1992; Jensen and Meckling, 1976; Watson et al. 2002). The theoretical framework and the creation of the hypotheses are the basis for our hypotheses model (Figure 2.1), which examines possible factors that have an impact on whether or not disclosure requirements for leases are met regarding the including of rent for premises.

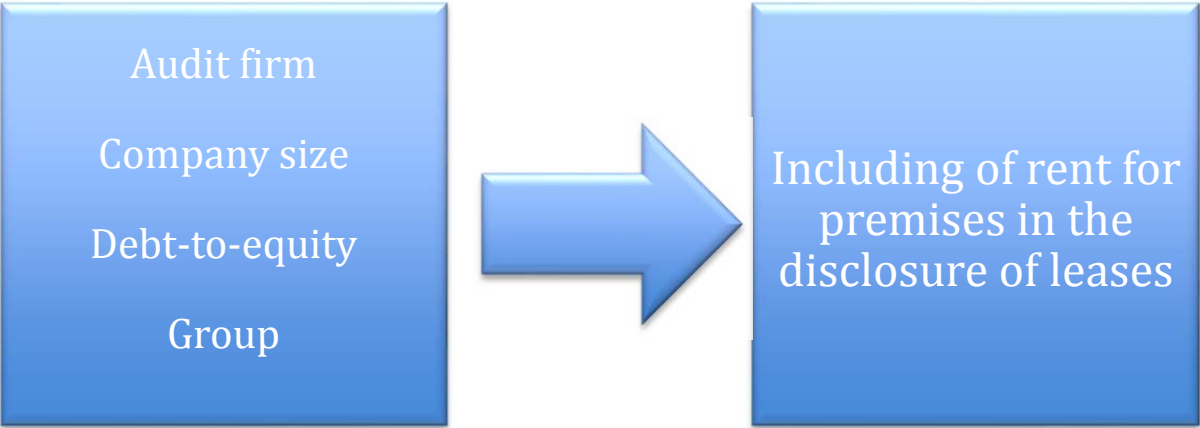


Figure 2.1 Hypotheses model

### 3. Method

*This chapter aims to describe the approach behind the thesis. This is presented along with a description of the method we used.*

#### 3.1 The Study Design

The design of the study depends on how we present the problem. Surveys can be divided into two categories: first, an *extensive* structure and secondly, an *intensive* structure. An extensive structure means that a large number of observations take place while an intense structure means that a few observations are carried out more carefully (Jacobsen, 2002).

First of all, we have a main question where we determine the information quality of companies who are complying with K3 or more specifically: if the companies include rent for premises in the disclosures of leases. An extensive structure was the most suitable category in regard to our main question since we are making a large number of observations, specifically 200. Through this kind of process, we are able to get information about the extent of the potential problem.

Then we want to determine the factors that affect companies' non-compliance with the disclosure requirements of leases in K3. More specifically, if there is any correlation between the possibility of companies including rent for premises and: the choice of audit firms, debt-to-equity, size of the company and if they are part of a group.

#### 3.2 Selection of theories

After studying earlier research done by Collin et al. (2008), Deegan & Unerman (2006), Glaum et al. (2012) and Watson et al. (2002), among others, the need arose to build a theoretical framework based on two theories: agency theory and stakeholders' perspective. These theories were relevant for our study since they have occurred in the research we have reviewed. Based on the theories - along with earlier research -we formed hypotheses which we will test to see if there are correlations between the dependent variable and the independent variables.

#### 3.3 Keywords and databases used

The databases used for the search of theories and previous research was: ScienceDirect, Google Scholar and Business Source Premier. The keywords that were used on the databases were: Agent Theory, Stakeholders' Perspective, Accounting Choice, Accounting Quality, Disclosures, K3 and Audit firm.

### 3.4 Selection of Annual Reports as an Information Channel

There was a discussion about which information channel would be used in the survey and it was important that the information was reliable for statistical analysis. Validity is an expression that deals with reliability and accuracy in a quantitative study (Bryman & Bell, 2013). Validity addresses whether the researcher measures what he/she actually intends to measure and the importance of providing the dependent variable versus the independent variables in the statistical analysis.

The choice of annual reports as an information channel was obvious since the reliability is high in these kinds of sources. Furthermore, the reports are easily available and consequently create advantages in a survey context (Smith, 2006). The annual reports often show whether or not companies include rent for premises in the disclosure of leases, which means that the first question is rather simple to answer. However, the contributing factors regarding why some companies do not meet the disclosure requirements of K3 cannot be answered through annual reports alone, nevertheless, these factors will be investigated using statistical analysis and discussed later in the thesis. Ax and Marton (2008) explains that the annual reports are important documents through which the company can present financial information to communicate and show what their intentions for the future of the company are. The reports show what the company considers to be important (Ax & Marton, 2008). Therefore, the information that is made available contributes to the society's perception of the organization (Hooks, Coy & Davey, 2002).

### 3.5 Selection and Data Acquisition

When the selection of observations were to be chosen the starting point was to search for large and small public limited liability companies in Sweden complying with K3 in the trade industry. One of the reasons that all of the companies in Sweden were included is that we did not want to encounter any regional discrepancies. The annual reports, which are the primary source of information, were obtained from Retriever Business. We did an extended search in Retriever Business which resulted in 16921 companies and the search criteria in Retriever Business was as follows:

- Number of employees: 1 -  $\infty$
- Turnover: 1 000 tkr -  $\infty$
- Industry: Retail industry
- Area: All counties
- Stock Exchange List: Not registered in the stock exchange lists

The reason why we chose such a large range in the expanded search was to be sure to also include smaller companies that comply with K3. The companies observed were

randomly selected. Our first thought was to use the random number generator in excel. However, there was a problem in that regard since we did not manage to export the lists with companies from Retriever Business into excel. For this reason, we designed our own system for selection. The procedure was as such that one of us was sitting with a computer with the lists from Retriever Business while the other one sat opposite and could in that way not see the list of companies. The one who did not have the computer said random numbers between 1-20 (which is the number of companies displayed per page) that the other person then included for our collection of data. The same system was used in the selection of pages. We felt it was important that the companies were randomly selected in order to avoid more known companies possibly dominating the study due to subjective interference. Out of the 200 companies that we originally selected, there were 22 who we chose to reject from the survey. The reason was that we could not determine if the companies actually included rent for premises, since those companies did not specify what was included in the leases.

As we mentioned earlier, the data collection began by searching for Swedish companies complying with K3 in the trade industry. This was done with the help of a checklist drawn up in Excel where information was collected about the companies' name, including of rent for premises, size, choice of audit firm, debt-to-equity, and if the companies were part of a group (see Appendix 1). This checklist then formed the basis for the statistical analysis done using the computer program "Statistical Package for the Social Sciences" (SPSS).

### **3.6 Criticism of the method**

When talking about the criticism of the method, we often use the terms reliability and validity. Even though the terms appear to be synonymous with each other, they hold very different meanings when it comes to assessing the measure of the different concepts. Regardless of how the collection of empirical data is done it should be both valid and reliable. The empirical data that we collect in the form of annual reports must be valid, that means that the information we study must be current and relevant to what we want to investigate (Bryman & Bell, 2013).

In a quantitative study, it is important that the source of information is of high quality and reliability, which we believe our source of information is because we analyze the companies' annual reports. In our study we use previous research and existing theories and based on these, we develop our hypotheses. We have found very few studies examining similar problem that we have. That is probably because our problem definition is relatively new. It will therefore be difficult to compare our findings with earlier studies, which can be considered as a weakness in the paper.

Reliability can also be judged by how easy it is to recreate the same survey and get the same results (Bryman & Bell, 2013). Since we used a method where we randomly selected the companies for the survey, the recreation of the results by the same method is not possible. However, an advantage using this kind of method is that the results cannot be manipulated, as it could be if we selectively chosen the companies. The risks with selectively choosing companies are that subjective interests may influence the data collection. It can also be seen as a weakness as it becomes much more difficult to re-create the same survey and confirm the results. One can of course use the same companies as we have done and thus confirm the results, however, it will then not be a randomly selected data collection. Furthermore, the random data generator we created can be seen as weakness. It would perhaps have been better to use a random number generator in Microsoft Excel. This was our intention at first, but since there was technical problems extract data from Retriever Business into Excel it prevented us to do so. But since we divided the task of selecting the companies to two persons, we have decreased the risk of manipulated data in the thesis.

Validity shows if the study measures what is crucial in order to answer the research question (Bryman & Bell, 2013). In this thesis, validity corresponds to how well our hypotheses can answer our research questions. We believe the hypotheses can explain some of the variation regarding rent for premises in the disclosure of leases. The subject of the first research question, to what extent companies include rent for premises in the disclosures of leases, was examined by using the companies' financial reports, which we believe answered the research question. Thereby, the validity of this method was high. The second research question, which was what factors could be behind potential variations in the disclosures of leases, could however be approached otherwise. In order to fully reveal more factors, a more openly approach through interviews could contribute to answer the second research question. This could lead to more hypotheses that could answer the potential variations in the disclosures of leases and consequently contribute to better validity. Due to limitations in time, this was unfortunately not possible.

### **3.7 Analysis models**

The following will present the models that were used to analyse the data collected in order to test the hypotheses.

#### **3.7.1 Correlation analysis**

The correlation coefficient measures if there is a linear relationship between two variables and it describes the direction as well as the strength of the potential relationship between the variables. The coefficient is described within a range between (-1) to (+1) and where (-1) means that the correlation is perfectly negative, and (+1) the relationship is perfectly positive. However, if the correlation coefficient is 0 there is no linear relationship, and the more the coefficient departs from 0 the stronger the linear relationship (Bryman & Bell, 2013).

In this thesis, we computed the Pearson's correlation by using SPSS Statistics. This model was chosen to investigate the linear relationship between our four independent variables: company size, the choice of audit firm, debt-to-equity and if the company is part of a group and if these have a relationship with our dependent variable: the inclusion of rent for premises in the disclosure of leases. We believe this model is a suitable tool in our thesis and clearly shows whether or not there is a correlation between the variables. This way, we could indicate whether or not our hypotheses that were created in the theoretical framework could explain the companies' choice of excluding rent of premises in the disclosure of leases and thus answering the research question regarding the factors that may impact this choice.

While carrying out a test for linear regression, it is important to detect severe multicollinearity. Perfect multicollinearity is when two or more independent variables have an exact linear relationship (Kelly & Jaggia, 2013). A high level of multicollinearity may cause problems in deriving the impact on the dependent variable to the appropriate independent variable. According Stud Mund (2011), correlation between the independent variables should not exceed 0.8, otherwise there is a risk of misleading results. This was something that we encountered in the early stages of the thesis. Multicollinearity existed between our variables "number of employees" and "total assets" which represented the hypothesis of company size. Since the hypothesis was based on the stakeholders' perspective we chose to exclude the variable "number of employees", as we assume that the shareholderse are more interested in the companies' total assets than number of employees.

### **3.7.2 Binary logistic regression**

Through the hypotheses created in the previous chapter and the collected data, we tested the relationship between our four independent variables: company size, the choice of audit firm, debt-to-equity and part of a group against our dependent variable, which is the including of rent for premises in the disclosure of leases. In order to answer our research question and establish if our hypotheses could explain the potential variation in disclosures of leases, we used binary logistic regression in SPSS Statistics. Logistic regression analyses the odds that a given observation belongs to a specific group, given a certain value of the independent variables. Thus, the odds can be estimated on whetever or not companies will include rent for premises depending on the values of our independent variables and this will consequently establish a potential relationship (Barmark & Djurfeldt 2009).

The variables used in this thesis is a mixture of both binary and quantitave values. For instance, our dependent variable: the including of rent for premises in the disclosure of leases has two outcomes, either rent is included or not. Since logistic regression has the

ability to test both binary and quantitative data against a binary dependent variable, it was the analysis model that satisfied the study's needs (Barmark & Djurfeldt 2009).

In the test statistics we used a significance level of 10 %, which means that variables that do not satisfy this qualification will be rejected from the study since we cannot assert with certainty that a relationship exists. The significance level of 10 % was chosen since our research topic was unexplored (Körner & Wahlgren, 2006).

### **3.8 Empirical Operationalization**

To make a theoretical concept measurable, one needs to operationalize the concept and this is done through the collection of data in verbal or numerical form. The purpose of this process is to make it possible for a statistical analysis of the quantitative data (Davidson & Patel, 2003).

In order to fit the data into the regression model we had to translate the data to binary numbers, which is presented next along with all of the study's variables.

#### **3.8.1 Dependent Variable**

The dependent variable is composed of binary numbers that represent two different outcomes. If the company includes rent for premises in the disclosure of leases, we label the company with the number one, and vice versa. Companies that do not include for premises will get a zero. It is important in this case that one can undoubtedly determine whether the rent was included or not. For a company to be in category one, i.e. the rent included, it must explicitly state in the disclosure for leases that rent for premises is included. However, there are different scenarios for a company to be labeled as zero and in order to explain this we have chosen to give examples below:

- The company has no buildings in the balance sheet and trades in merchandise, but do not have a leasing disclosure.
- The company has no buildings in the balance sheet and trades in merchandise. The company has specified what is included in leases but rent for premises is not mentioned.
- The company has no buildings in the balance sheet and trades in merchandise. In either the definition of leases or in disclosure for leases it is stated that rent for premises is intentionally not included.

In order to demonstrate how the leasing disclosure according to K3 regulation should look like, we have selected an example from our collection of data that represents the correct way to disclose leasing information. This example is available in Appendix 2.



## 3.8.2 Independent Variables

### 3.8.2.1 Company Size

Glaum et al. (2012) and Deegan & Unerman (2006), states that company size contribute to level of disclosure and information asymmetry which is described in our theoretical framework. Based on that, we chose to investigate whether company size has a statistical relationship with inclusion of rent for premises in the disclosure of leases. We chose to collect the balance of sheets total for each company. We chose this size indicator because it is one of the three used in (ÅRL) to determine if a company is categorized as large or small. Company size is then tested against our dependent variable, which is, inclusion of rent for premises in the disclosure of leases in order to demonstrate a possible link.

### 3.8.2.2 Big four Audit Firms

In accordance with our hypothesis, which is based on our theoretical framework, the choice of audit firm may influence whether compliance with the regulation is achieved due to the level of knowledge and the quality of the audit at the audit firm (DeAngelo, 1981; O'Keefe & Westort, 1992; Cafferman & Cooke, 2002). In order to test the relation between choice of audit firm and the including of rent for premises, we had to make it possible for a statistical analysis. Thus, we classified the four largest audit firms "Big Four", which consists of Deloitte, EY, KPMG and PwC to the binary number one (Marton 2013). The remaining audit firms were classified as zero.

### 3.8.2.3 Part of a Group

In accordance with our hypothesis, there may be a positive relation between the including of rent for premises in the disclosure of leases and if a company is part of a group. This hypothesis is based on stakeholders' perspective, which says that the company has the same obligations to all stakeholders, regardless the size of the stakeholders' investment. (Hill & Jones, 1992). With that in mind, an increase of stakeholders should consequently also increase the demand for information in the financial reports. We used the search engine "Retriever Business" and companies group tree to establish whether or not the companies were part of a group. If a company was part of a group we classified it as the binary number one. The rest of the companies were classified as zero.

#### 3.8.2.4 Debt-to-equity Ratio

In accordance with our hypothesis, there should be a relation between the including of rent for premises in the disclosure of leases and the debt-to-equity ratio of a company, since companies that are heavily indebted tend to provide more information in their financial reports (Jensen and Meckling, 1976; Watson et al. 2002). Through “Retriever Business”, we collected information about the companies’ equity-to-assets ratio and since there is a clear mathematical relationship between the key ratios, the debt-to-equity ratio could be calculated from the companies’ equity-to-assets ratio (Nilsson, Isaksson & Martikainen 2002). Unlike equity-to-assets ratio, which explains the relationship between equity and total assets, the debt-to-equity ratio explain the relationship between debt and equity. The information content of the two measures is basically the same, however the debt-to-equity ratio can be seen as an inversely equity-to-assets ratio. For example, if equity-to-assets ratio decreases then the debt-to-equity ratio increases (Johansson & Runsten 2005). The formula we have used to convert equity-to-assets ratio to debt-to-equity is presented below.

$$**Debt – to – equity** = \frac{1}{**Solidity**} - 1$$

(Nilsson, Isaksson & Martikainen 2002)

## 4. Empirical Results and Analysis

The following chapter will firstly present the results from our quantitative research which will answer how many companies have and have not included rent for premises in the disclosure of leases. Secondly, descriptive statistics will show the basic features of the data collected in this study. Thirdly, in order to establish whether or not the independent variables correlate with each other a bivariate correlation analysis will be presented and discussed. Lastly, as part of the study's analysis a binary regression analysis will interpret the data collected and answer if the hypotheses can correctly explain the variation of the dependent variable.

### 4.1 Descriptive Data

The figure below displays the numbers of companies that included rent for premises in the disclosure of leases and the companies that have not. The results show that 56 companies out of 178 have not included rent for premises, which is equivalent to 31.5 percent and whereas 122 have rightfully disclosed rent for premises, which is 68.5 percent of the total companies observed.

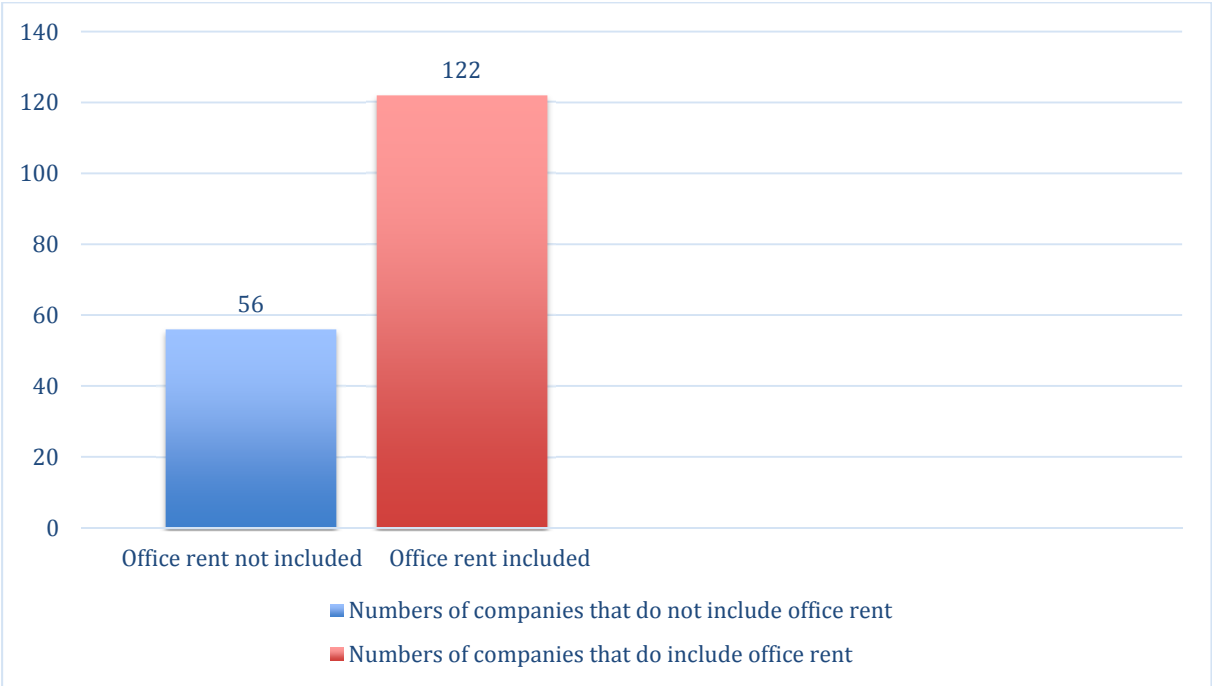


Figure 4.1 Number of companies that include and do not include rent for premises.

The table below presents the descriptive statistics of the independent variables which are total assets and debt-to-equity ratio.

Continuous variables	Numbers of companies	Standard Deviation	Mean	Minimum	Maximum
<b>Total assets (MSEK)</b>	178	1387.5	450.8	2.2	14153.2
<b>Debt-to-equity ratio</b>	178	25.2	6.5	-50.8	293.1

Table 4.1 Descriptive data numerical variables

The total assets within each of the 178 companies has a mean of 450.8 million SEK and a standard deviation of 1387.5 million SEK whereas the minimum is 2.2 million SEK and the maximum is 14153.2 million SEK. The mean of the companies’ debt-to-equity ratio is 6.5 and the standard deviation is 25.2 whereas the minimum is -50.8 and the maximum is 293.1.

This time, the table below presents the descriptive statistics of the binary independent variables which are part of a group and big four audit firms.

Variable	Number of companies	Rent included	Did not include rent
<b>Part of a group</b>	156	115	41
<b>Not part of a group</b>	22	7	15

Table 4.2 Descriptive data binary variables

Out of the total 178 companies observed, 156 companies were part of a group and 22 were not. 115 of the companies that were part of a group included rent for premises in the disclosure of leases whereas 41 did not. Seven companies that were not part of a group included rent for premises, whereas 15 did not.

Inclusion of rent	Big four audit firm	Not big four audit firms	Total
<b>Included rent for premesis</b>	92	30	122
<b>Did not include rent for premesis</b>	27	29	56

Table 4.2.1 Descriptive data binary variables

As described above in the table, 92 out of the companies that did include rent for premises had on of the big four as their audit firm whereas 30 companies had other

audit firms. However, out of the 56 companies that did not include rent for premises, 27 had hired one of the big four firms and the rest, 29 companies, was audited by others.

### 4.2 Correlation Analysis

As we can see from the table below the Pearson correlation test indicates that there is a statistical significance correlation between our dependent variable and all the independent except the Debt-to-equity ratio. The significance value on this test was set to below 0.05, which is not achieved with the debt-to-equity ratio. Even though there is in fact significance correlation with the dependent variable in the cases stated above, it is not an especially strong correlation. The hypothesis that companies, which have a larger amount of total assets, have a more correct leasing disclosure confirms as the strongest correlation in this test.

Column1	Rent for Premises	Total assets	Debt-to-equity ratio	Part of a group	Big four audit firm
<b>Rent for premises</b>	1				
<b>Total assets</b>	.175*	1			
<b>Debt-to-equity ratio</b>	-.125	.016	1		
<b>Part of a group</b>	.297**	.09	.076	1	
<b>Big four audit firms</b>	.278**	.15*	-.056	.03	1

Table 4.3 Correlation Analysis

\* Correlation is significance at the 0.1 level  
 \*\* Correlation is significance at the 0.01 level

### 4.3 Regression Analysis

The table below displays the results from our binary regression analysis, which addresses our research question whether or not our independent has an explanatory relation with our dependent variable. The results show a value of 0.427 for Nagelkerke R Square, which means that 42.7 % of the variance in the dependent variable can be explained by the variation in the variables in the model (Barmark & Djurfeldt 2009).

In the test of our hypotheses we chose a lower limit of 0.1 for the significance level. In other words the independent variables that do not satisfy this qualification will be rejected from the study since we cannot assert with certainty that a relationship exists. However, we can say with 90 % certainty that the variables that do meet this qualification have a relationship which did not occur by chance. For the variables that however do meet this qualification, we can with 90 % certainty say that the relation is

not occurred by chance. Since the number of observations exceeds 30 there will be no need to test if the residuals are normally distributed (Körner & Wahlgren, 2006).

Variables	Beta	Sig.
<b>Constant</b>	-2.19	.000
<b>Total assets</b>	.007	0,00006
<b>Debt-to-equity ratio</b>	-.027	.082
<b>Part of a group</b>	1.63	.004
<b>Big four audit firms</b>	.872	.030
<b>Dependent variable</b>	Rent for premises	
<b>N</b>	178	
<b>Nagelkerke R Square</b>	0.427	

Table 4.4 Regression Analysis

**4.3.1 Total Assets**

In accordance with the hypothesis created, H1, the size of the company most probably has an impact on whether or not the rent for premises is included in the disclosure for leases. Regression analysis shows a strong significance level of 0,00006 and a beta value of 0.007, which confirms the hypothesis and in this case, the size of the company can help to understand the deviation from correctly given leasing disclosures. The probability of including rent of premises increases the larger a company is. This result supports previous research done by Cooke (1989) that suggests that companies that grow tend to disclose more as a way to reduce information asymmetry between the owner and the company’s stakeholders. It also confirms previous research done by Glaum et al. (2012) who suggests that since larger companies have more resources to spend on their accounting departments, it allows for a provision of a higher quality of accounting i.e. the disclosure requirements in K3.

It is worth noting that the significance level is extremely low, which indicates a strong relationship. However, this may be influenced by the high standard deviation for total assets that was presented earlier. This was caused by not excluding extreme values in the data collection, which was a necessary decision to make in order to establish whether or not very big companies disclose rent for premises more often than very small companies. Also, variation in the data is hard to avoid when it comes to large numerical variables such as total assets. Thus, it makes it more difficult to without uncertainty draw conclusions from the relationship between disclosures of rent for premises and total assets.

### 4.3.2 Debt-to-equity Ratio

The second hypothesis states that excluding rent for premises in the disclosure for leases can be explained by the company's debt-to-equity ratio. The regression analysis shows a significance level of 0.082, which is under our tolerance level and thus not rejected. The beta value is negative (-0.027) which indicates that the lower the debt-to-equity ratio is the higher the probability is that the company actually include rent for premises. This result differs from earlier research done by Watson et al. (2002) who claims that companies who are heavily indebted will provide more information in their annual reports in order to reduce the agency costs, which in accordance to Jensen and Meckling (1976) increases as the debt-to-equity increases.

### 4.3.3 Part of a Group

The third hypothesis assumes that the companies that are part of a group have a greater tendency to include rent for premises in the disclosure of leases. This is confirmed by the regression analysis that demonstrates a level of significance of the 0.004, and a beta value of 1.629. No prior research that tested this direct relationship could be found and there we cannot compare our results with previous research. However, it confirms our initial expectation that companies that have more stakeholders are more pressured to disclosure more information since, as Hill & Jones (1992) stated, companies have equal obligations towards all stakeholders. In this case, if a company is part of a group it automatically increases its stakeholders and is expected to satisfy more stakeholders' need of information.

### 4.3.4 Big four audit firms

The last hypothesis states that companies that are audited by an audit firm from the big four are more likely to include rent for premises in the disclosure for and thus rightfully comply with K3. The regression analysis shows a significance level of 0.03 and a beta value of 0.872, which confirms the hypothesis. As DeAngelo (1981) stated in her study, hiring a big four firm may be of great importance for some of the companies as users of financial information require reliable information and our study shows that having an auditor from a big four firm indicates that the required reliability of financial information is achieved through the inclusion of rent for premises in the disclosures of leases. The results are consistent with what we originally assumed and are also consistent with previous research by Collin et al. (2008) and O'Keefe and Westort (1992), which states that if a company is audited by a large and well-known auditing firm, it will display more information in its annual reports.

## 5. Conclusions, Discussion and Further research

*The following chapter will present the conclusions that we have drawn and a discussion will take place. Finally, a suggestion for future research will be provided.*

### 5.1 Conclusions and Discussion

The purpose of this thesis is to examine to what extent companies who comply with K3 achieve the requirements for the leasing disclosure, as well as creating hypotheses of possible factors that have an impact on whether or not disclosure requirements are met. The hypotheses and variables that were created was: company size, the choice of audit firm, debt-to-equity and if the company is part of a group. Thus, we have in this thesis analyzed if these variables can explain the degree of compliance with the disclosure requirements for leases regarding rent for premises. The research showed that 56 out of 178 companies did not include rent for premises in the disclosure of leases. However, the original collection of data included 200 companies, but since 22 of them did not specify the items in the disclosure of leases, we could not establish with certainty as to whether rent for premises was included or not.

Our first hypothesis is based on previous research done by Collin et al. (2008), DeAngelo (1981) and O'Keefe and Westort (1992). Out of our total sample there were 122 companies that included rent for premises in the disclosure of leases in accordance with the K3 regulatory framework. We have chosen to compile the Big Four and then compare them to other firms. Of the 122 companies that reported complete information; 92 were audited by either KPMG, EY, PwC or Deloitte, 30 were audited by other auditing firms. Out of the 56 companies that did not include rent for premises, 27 had hired one of the big four firms and the rest, 29 companies, was audited by others. As we can see the vast majority of the companies are audited by one of the big four.

When we tested the hypothesis, the statistical analysis showed a positive correlation between choosing one of the four largest audit firms and the including of rent for premises in the disclosure of leases. This means that if a company chooses one of the big four, there is a greater probability that the rent will be included in the lease disclosures.

Our second hypothesis was created out of the agent theory. The agent theory focuses on the relationship between the agent and the principal. Sometimes there is an imbalance between these that is often based on information asymmetry, which in turn creates so-called agency costs. As the company grows, the agency costs also increase as a consequence of a more uncertain relationship between the agent and the principal. In



order to reduce these costs, the company tends to disclose more information in the financial reports. Thus, in accordance with the agent theory: the larger the company, the more information it discloses. The study establishes that there is in fact a positive relationship between company size and the disclosure of leases, which means that the agent theory can explain the degree of compliance with the disclosure requirements for leases. However, the significance level was very low and could have been influenced by the high standard deviation for total assets. The relation between total assets and the disclosures of rent for premises can therefore not be established without any uncertainty.

Our third hypothesis is based on the stakeholder perspective and we tested this hypothesis to see if there was a connection between the debt to equity ratio and the including of rent for premises in the disclosure of leases. Stakeholder perspective suggests that if a company has a high debt level, then the stakeholders will investigate the company more closely. For example, a bank may examine the company more closely to ensure that the company does not violate the loan agreement. This can provide incentives for the company to report full details in its financial reports according to Watson et al. (2002).

The hypothesis test showed an existing correlation between debt-to-equity ratio and the disclosure of rent for premises. Our results show that the less debt-to-equity ratio a company has, the more the likely the company will disclose rent for premises in accordance with K3 regulations.

Our last hypothesis is also developed from the theory from the stakeholder's perspective, which states that the company legitimacy is created through the relationship between the company and its stakeholders and that the company has obligations towards all stakeholders. In this sense, if a company is included in a group, it automatically increases the amount of stakeholders since the group's stakeholders also become the company's stakeholders. The obligation to provide information to the stakeholders then increases, which leads us to the hypothesis that if a company is part of a group, it tends to include rent for premises in the disclosure of leases. The study establishes that there is in fact a positive relationship between the variables, therefore, the theory of the stakeholder's perspective can explain the degree of compliance with the disclosure requirements for leases regarding rent for premises. Out of the total companies of 178, 156 companies were part of a group and 22 were not. 115 of the companies that were part of a group included rent for premises in the disclosure of leases whereas 41 did not. Seven companies that were not part of a group included rent for premises, whereas 15 did not. However, we cannot compare our result with previous studies since we could not find a previous study that tests the relationship between being a part of group and the compliance with disclosure requirements.

All of our independent variables in the hypothesis test showed a significance level under 0.1, which in other words satisfies our qualification of a lower limit. However, we hoped for a higher coefficient of multiple determination than 42.7 % which means that our independent variables can only explain the degree of including of rent for premises to 42.7 %.

It was curious to learn that such a large number of the observed companies do not include rent for premises in the disclosure of leases even though it is required in K3 regulation. Neither materiality nor the balance between cost and benefit can justify omitting the rent of premises from the disclosure of leases, which means that we should expect a much higher compliance with the disclosure requirements. However, to follow the disclosure requirements in practice is not as natural as it should be, which is something that Verriest et al. (2013), Amiraslani et al. (2013) have established based on their studies on the IFRS level. During our study, it became increasingly evident that the same phenomenon also exists in Sweden. It is worth noting that K3 is relatively new for companies and- unlike previous standards - now include rental of premises. Only time and further research can answer whether or not companies will eventually include rental of premises.

We hope that we have made a contribution through our research and that similar studies will be done to establish whether or not companies will include rent for premises in the disclosure for leases in the future.

## 5.2 Suggestions for Future Research

The study conducted in this thesis determined a couple of factors that contribute to companies' choice of not including rent for premises in the disclosures of leases and to which we have established a pattern. As this only shows a pattern and might contain elements of coincidence, it would be interesting to do a study in which interviews with the companies are conducted in order to answer the question why and if our results can be confirmed. There may be more factors in play beside the ones presented in this thesis, which only can be analyzed through interviews. For instance, we cannot from this study alone evaluate if the companies have made a materiality assessment that may underlay the lack of information in the disclosures or if the problem is with the knowledge of the management.

We also encourage creating more hypotheses and testing of even more independent variables in order to get a broader picture of what influences this phenomenon.

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## Appendices

**Office rent:** 1=Includement of rent for premises in the disclosure of leases.

**Office rent:** 0= Not including the rent for premises in the disclosure of leases.

**Total assets** = Milion SEK

**Debt-to-equity ratio** = The ratio between debt and equity

**Group:** 1 = Companies that are part of a group

**Group:** 0 = Companies that are not part of a group

**Audit firm:** 1 = Audited by one of the Big Four

**Audit firm:** 0 = Audited by another auditor firm than the Big Four

### Appendix 1 – Companies Covered in the Study

N	Company name	Office rent	Total assets	Debt-to-equity	Group	Audit firm
1	Hemköpskedjan Stockholm	1	754,471	4,13	1	1
2	Intersport AB Mölndal	1	767,748	3,63	1	1
3	XXL Sport och Vildmark AB Bromma	1	1236,745	22,92	1	1
4	MMC Bilar Sverige AB	1	455,414	4,04	1	1
5	Netto Marknad Sverige Falkenberg	1	2208,955	1,43	1	1
6	Jula Sverige Skara	1	678,107	1,29	1	1
7	NetOnNet Borås	1	681,167	2,1	1	0
8	Admenta Sweden AB Stockholm	1	403,033	5,12	0	1
9	Lindex Göteborg	1	795,259	57,82	1	1
10	CDON Malmö	1	452,524	8,36	1	1
11	Dressman Örebro	1	1298,519	0,7	1	1
12	Electra Sweden Aktiebolag Kalmar	1	446,789	2,58	1	1
13	Mediq Sverige AB Kungsbacka	1	366,577	2,13	1	1
14	Ellos Borås	1	1333,364	0,64	1	1
15	K-rauta Kista	1	811,247	0,55	1	1
16	Akademibokhandeln Stockholm	1	540,354	4,48	1	1
17	L'Oréal Sverige AB	1	494,791	1,58	1	1
18	Hornbach Byggmarknad Göteborg	1	286,685	7,89	1	1
19	Plantagen Sverige Aktiebolag Hesta	1	328,873	55,5	1	1
20	Siba Göteborg	1	782,568	1,38	1	0
21	Synsam Drifts Stockholm	1	1110,713	0,63	1	1
22	Arrow ECS Sweden AB Kista	1	444,559	6,17	1	1

23	Gymgrossisten Stockholm	1	200,99	6,15	1	1
24	Cervera Stockholm	1	397,173	1,38	1	1
25	CEDERROTH AB Väsby	1	1446,952	0,6	1	1
26	JTI Sweden AB	1	897,811	0,42	1	1
27	Nordic Room Improvement Holding AB	1	200,107	2,89	1	1
28	Cubus Örebro	1	432,402	0,77	0	1
29	Filippa K Stockholm	1	314,987	0,57	1	1
30	Scorett Footwear	1	362,61	2,62	1	1
31	Zara Stockholm	1	260,469	0,5	1	1
32	Nya Stormarknaden i Kristinehamn AB	1	30,722	2,4	1	0
33	Grolls AB Göteborg	1	393,545	1,16	1	1
34	AFH Sweden Aktiebolag Solna	1	105,681	0,62	1	1
35	Nille AB	1	81,123	4,65	1	1
36	Nacka Stormarknad	1	73,19	1,82	0	1
37	Luleå Stormarknad	1	199,02	0,18	1	1
38	Gallerix AB	1	26,541	1,89	1	1
39	Lager 157 Gällstad	1	305,493	0,6	1	0
40	SverigesEnergi elförsäljning AB	1	299,525	59,61	1	1
41	Ettfemsju Sjal AB Gällstad	1	348,335	0,68	1	0
42	Bro Möbler Kristinehamn	1	133,637	1,78	1	1
43	Fiskars Sweden AB Stockholm	1	380,819	0,38	1	1
44	Nordiska Bil AB	1	175,109	3,92	1	0
45	GE Healthcare Sverige AB	1	403,68	0,86	1	1
46	Carolinas Matkasse AB	1	109,227	1,06	1	1
47	JC Sverige AB Stockholm	1	230,574	3,87	1	1
48	BLS Industries AB Ystad	1	461,809	0,34	1	0
49	Senab AB	1	204,605	3,56	1	1
50	Kronhallen Butik AB Karlskoga	1	83,784	0,81	1	1
51	Swedemount Sportswear & Fashion AB Grebbestad	1	393,993	1,89	0	0
52	Vagabond International Aktiebolag	1	302,411	0,25	1	1
53	Rolf Ericson Bil i Dalarna AB	1	105,031	0,78	1	1
54	Panduro Hobby AB Malmö	1	295,206	0,47	1	1
55	Convectra AB Södertälje	1	42,034	2,73	1	0
56	Mandum AB Södertälje	1	43,201	3,74	1	0
57	Hedin Stockholm Bil AB	1	395,341	8,31	1	1
58	Hööks Hästsport AB Borås	1	154,598	0,56	1	1
59	TM Helsingborg AB	1	54,982	5,79	1	1
60	Gallerix AB	1	26,541	1,89	1	1
61	Dormy Golf & Fashion AB Örebro	1	102,492	0,87	1	1
62	Risveden Invest AB	1	39,649	-50,75	1	1
63	PoG Woody Bygghandel AB Lund	1	103,537	4,96	1	1
64	Hunky Dory Holding AB	1	43,03	3,52	1	0
65	Hi-Fi Klubben Göteborg	1	61,782	1,5	1	1
66	The Body Shop Sverige AB Stockholm	1	97,802	1,44	1	1
67	Opus Equipment AB	1	65,301	0,91	1	1
68	Spar Hotel Aktiebolag	1	208,714	0,03	0	1
69	Gycom Group AB Stockholm	1	179,647	-5,73	1	1
70	Synoptik Sweden Aktiebolag	1	268,324	0,65	1	1
71	CopiAx AB	1	190,433	2,27	1	1

72	FlexLink AB	1	945,3	1,04	1	1
73	DAW Nordic AB Göteborg	1	127,721	0,79	1	1
74	Skutan Livs Ab Åkersberga	1	85,611	0,58	1	0
75	Papyrus Sverige AB	1	290,766	36,74	1	1
76	Apoteksgruppen i Sverige AB Stockholm	1	227,93	0,38	1	0
77	Karlssons Varuhus i Sverige AB Göteborg	1	63,429	1,84	1	1
78	E. Svenssons i Lammhult AB	1	74,474	3,86	1	1
79	Deichmann Sko AB Malmö	1	96,04	0,26	1	0
80	Kontorab AB Norrköping	1	289,532	1	0	1
81	Best of Brands i Stockholm AB	1	75,062	3,38	1	0
82	Boxon Pak AB	1	199,018	5,78	1	0
83	Lyko Retail AB Stockholm	1	113,966	2,1	1	1
84	Junkyard AB	1	82,754	3,79	1	1
85	Jollyroom Group Ab Göteborg	1	87,983	1,28	1	0
86	Varbergs Trä AB	1	75,241	0,81	1	1
87	Santex AB Halmstad	1	94,464	2,92	1	1
88	Monocottura AB Helsingborg	1	95,036	0,35	1	0
89	New Wave Sports AB	1	218,024	14,2	1	1
90	Hans Anders Bygg AB Skurup	1	73,75	1,74	1	0
91	OCA Y Sverige II AB	1	134,524	1,68	1	1
92	POC Sweden AB Stockholm	1	157,427	0,51	1	1
93	NCAB Holding AB	1	402,162	3	1	1
94	Aktiebolaget Blåkläder	1	628,293	1,42	1	1
95	Rosengren i Kristianstad AB	1	75,746	1,04	1	1
96	Luxottica Nordic AB	1	111,376	0,58	1	1
97	AB Dogman	1	151,952	9,55	1	0
98	Dell Aktiebolag	1	297,954	0,55	1	1
99	TZ-shops South Sweden AB Malmö	1	2,159	1,99	0	1
100	Webhallen Sverige AB	1	342,608	3,64	1	0
101	Pocket Shop Aktiebolag	1	67,457	1,77	1	1
102	Music Retail Sweden Aktiebolag	1	148,919	2,37	1	0
103	AB Stalands Möbler	1	102,736	1,25	1	0
104	ÖoB Aktiebolag	1	1163,882	6,82	1	1
105	Iduna AB	1	649,626	8,69	1	1
106	Adlibris Aktiebolag	1	568,679	1,36	1	1
107	Willab Garden AB	1	172,882	0,73	1	0
108	ICA Sverige AB	1	14153,234	21,22	1	1
109	OK Q8	1	10788,062	1,54	1	1
110	OK Detaljhandel AB	1	278,584	30,06	1	0
111	Volvo Bil i Göteborg AB	1	4431,02	4,39	1	1
112	Fasetten AB	1	1834,961	6,96	1	1
113	Vestas Northern Europé AB	1	1121,152	2,9	1	1
114	Mondelez Sverige AB	1	2375,917	0,94	1	1
115	Solar Sverige Aktiebolag	1	952,661	3,23	1	1
116	Axfood Snabbgross AB	1	288,487	12,28	1	1
117	Runsven Aktiebolag	1	519,695	9,19	1	0
118	S-Blommor i Stockholm	1	70,13	0,79	1	0
119	Hugo Boss Scandinavia	1	95,567	1,35	1	1



120	Vida Wood AB	1	567,502	8,07	1	0
121	Liljas Personbilar AB	1	333,978	1,86	1	0
122	Citroen Sverige Aktieboalg	1	338,985	6,65	1	1
123	Telgekraft	0	496,177	21,03	1	1
124	Kjell & Co Elektronik AB Malmö	0	403,378	1,18	1	1
125	Söderbyleden Stormarknad Söderby	0	115,067	0,89	1	1
126	Tornby Stornarknad Linköping	0	64,758	2,09	1	1
127	Jönköping Stormarknad	0	89,614	1,13	1	1
128	Hälla Stormarknad Västerås	0	151,788	0,48	0	1
129	Carlssons Livs i Helsingborg AB	0	82,717	6,49	1	0
130	Grafiska Vägen Livs AB Göteborg	0	67,458	1,18	1	0
131	Viasat Sales AB	0	6,811	67,03	1	1
132	Traktören i Umeå AB	0	121,581	0,36	0	0
133	TeknikMagasinet Sweden Aktiebolag	0	361,488	0,81	1	1
134	Cumelin AB Alingsås	0	601,034	10,95	1	0
135	Varuhuset Flygfyren AB Norrtälje	0	99,627	0,47	1	1
136	InkClub AB	0	87,541	89,91	1	1
137	Bessmanet Livs AB	0	70,868	1,41	0	0
138	Plotagon AB	0	19,557	0,47	0	0
139	AB Nymans Ur 1851 Stockholm	0	147,573	0,91	1	0
140	Jagolix AB Landskrona	0	52,055	1,58	1	0
141	River Island (Sweden) AB	0	51,265	-15,27	0	0
142	Geidemarks Byggtreprenad Aktiebolag	0	9,852	3,06	0	1
143	P. Collains Göteborg	0	46,707	2,08	0	0
144	Hedbacken Handel AB	0	43,548	8,88	0	1
145	Ohlssons Stormarknad AB	0	40,53	0,22	0	1
146	Stormarknaden i Jämtland AB Östersund	0	46,583	2,35	0	0
147	Dalarnas Stormarknad AB Borlänge	0	65,157	0,72	0	1
148	Saigon City AB	0	14,317	41,19	1	0
149	Yogiboost Retail AB	0	7,183	19,88	1	0
150	Stormarknaden i Kumla AB Örebro	0	53,686	0,68	1	1
151	Storbutiken i Sandviken AB	0	32,431	2,49	1	1
152	Nyköping stormarknad AB	0	29,706	4,69	1	1
153	Hugo Hendén Aktiebolag	0	77,322	5,63	0	1
154	Ingaröhallen AB	0	10,723	0,84	0	0
155	Silfverhjelms Livs AB	0	17,489	5,35	0	1
156	Gränsen Livs Aktiebolag	0	10,05	0,98	0	1
157	Bröderna Miller Aktiebolag	0	32,338	1,9	1	1
158	Euro Sko Group Sverige AB Örebro	0	113,258	2,58	1	0
159	Skånska Byggvaror Aktiebolag	0	127,422	1,03	1	1
160	Högsbo Stormarknad AB	0	65,057	1,2	1	0
161	Forsheda Livs Aktiebolag	0	53,341	1,28	1	1
162	Bole Sverige AB	0	4,966	1,94	1	0
163	Goldgun AB	0	30,4	2,04	1	1
164	Rose & Born AB	0	20,796	2,3	1	0
165	Nudie Jeans Retail AB	0	15,942	3,15	1	0
166	MN Retail AB	0	14,939	293,12	1	0
167	Family No: 1 House AB	0	23,996	-20,31	1	0

168	Hilfiger Stores Sweden	0	43,553	5,71	1	1
169	Mango Sverige AB	0	29,357	0,32	1	0
170	Airport Retail Sweden AB	0	36,803	9,12	1	0
171	Synsam Sverige AB	0	689,019	0,92	1	1
172	Socorocco AB	0	39,194	10,75	1	0
173	Cykloteket Aktiebolag	0	32,013	9,6	1	0
174	Vagabond R1 AB	0	28,833	3,3	1	1
175	Kewije AB	0	42,802	1,03	1	0
176	C & K Handels AB	0	33,223	-5,98	1	0
177	SMC Stockholm Maskincentral Aktiebolag	0	66,229	0,32	1	0
178	Sneakersnstuff AB	0	37,932	2,58	1	0

## Appendix 2 – Example of How the Disclosure of Leases Should Look Like

The Pure Circle AB  
Org.nr 556526-3380

### Not 2 Leasing

Operationell leasing	Koncernen		Moderbolaget	
	2014	2013	2014	2013
Leasingavgifter kostnadsförda	12 565	11 901	0	0

Leasing för 2013 har justerats till att följa K3. Detta innebär att lokalhyra nu ingår i Leasingavgifter samt att betalda leasingavgifter för finansiell leasing redovisats enligt principer för finansiell leasing. Detta innebär att 2013 års leasingavgifter har justerats ner med 199,6 tKr

### Leasingavgifter operationell och finansiell leasing

Framtida minimileasingavgifter enligt kontrakt som ej går att sägas upp	Koncernen	Moderbolaget
Förfaller till betalning inom ett år	11 888	0
Förfaller till betalning senare än ett år men inom fem år	33 377	0
Förfaller till betalning senare än fem år	0	0

I koncernens redovisning utgörs den operationella leasingen i allt väsentligt av hyrda fastigheter/lokaler. Hyresavtalen löper med en omsättningsbaserad hyra, i ovan redovisade siffror har en budgetrad omsättning används för att beräkna hyreskostnaderna. Inga avtal finns att beakta som sträcker sig längre än fem år framåt.