IFRS vs. K3

A Liljedahl Group Perspective
Acknowledgments

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Abstract

Background

The debate whether to adopt IFRS or not is once again a hot issue for Swedish non-listed group entities due to the fact the BFN have set 2014 as the starting point for the new K3-regulation. This change of accounting standards are believed to encourage non-listed group entities to investigate to what cost a transition to IFRS would imply for them.

Purpose

The purpose of this thesis is through a qualitative approach to investigate the extra amount of work required of non-listed group companies to transit into full IFRS instead of the new K3 regulation and the benefits of IFRS. The main purpose of the thesis is not to compare K3 with IFRS as such but to determine the amount of additional work and information needed for non-listed groups to fulfill the requirements of IFRS. Furthermore the thesis aims to clarify to what cost this additional information can be obtained.

Method

This study takes the progress of qualitative approach and through qualitative interviews and an IFRS disclosure checklist aims to answer the main issue and the sub queries of this study.

Conclusion

This study concludes that non-listed group companies will see the new K3-regulation as an opportunity to investigate which changes IFRS would impose. In line with previous studies it has been found that almost all IFRS standards will impose some change in respect to current domestic GAAP. The changes needed to be made differ depending on aspects such as industry and transactions undertaken by the entity. How well an entity will handle the transition to IFRS is determined mainly by internal competence in the accounting area.
## Glossary

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<tr>
<th>Acronym</th>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>BFN</td>
<td>Bokföringsnämnden / Swedish Accounting Standards Board</td>
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<td>BFL</td>
<td>Bokföringslagen / Book-keeping Act</td>
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<td>EU</td>
<td>European Union</td>
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<td>FAR</td>
<td>Föreningen Auktoriserade Revisorer</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>IL</td>
<td>Inkomstskattelagen</td>
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<td>PPA</td>
<td>Purchase Price Allocation</td>
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<td>RR</td>
<td>Redovisnings Rådet / Swedish Financial Accounting Standards Council</td>
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<td>ÅRL</td>
<td>Årsredovisningslagen / Annual Accounts Acts</td>
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I  Introduction

The introduction aims to highlight the background of the problem at hand. Furthermore, a discussion takes place in order to specify the problem, a discussion which guides us to the research questions the thesis intends to shed light upon. This section ends with the purpose and delimitations of the thesis.

1.1  Background

Accounting has been developed and regularized on a national basis for a long time; this has led to difficulties in the comparison of financial information between companies based in different countries. This situation created a problem when the demand for comparing financial information between countries increased. To be able to achieve harmonization and the possibility to compare financial information, International Accounting Standards Committee (IASC) was founded (Marton, Lumsden, Lundqvist, Pettersson & Rimmel, 2010).

IASC was founded in 1973 and was converted into International Accounting Standards Board (IASB) in 2001. IASB is based in London, U.K, and is the standard setting body which establishes International Financial Reporting Standards (IFRS) and issues related standards and interpretations (Langmead & Soroosh). The standards issued by IASB are called IFRS and the standards issued by IASC where called International Accounting Standards (IAS) (Alp and Ustundag, 2009).

The European Union plays an important role in the harmonization of the accounting between different countries. EU adopted the IAS regulation in 2002 as a result of cooperation with IASB, a cooperation that was first initiated with IASC, meaning that all EU-listed companies would have to follow IFRS in their consolidated report by 2005. The standards issued by IASB does not automatically apply for the EU-listed companies, the standard first has to be approved by the EU (Larson and Street, 2004). The aim of the IAS regulation was to eliminate barriers to cross-border trading in securities. When the IAS regulation was adopted it resulted in the biggest change of financial reporting in Europe in over 30 years and 7000 EU-listed companies where effected (Committee of European Securities Regulators, 2003). For entities moving into IFRS new areas of disclosure will be added that were not required under previous Generally Accepted Accounting Principles (GAAP), such as segment information, earnings per share, discounting operations, contingencies and fair
values of all financial instruments. Also some areas of previously required disclosure may broaden (Jermakowicz & Gornik-Tomaszewski, 2003).

When the IAS regulation was adopted in 2002 all EU-listed companies were forced to follow IFRS. Every member state has the possibility to extend this requirement to unlisted companies and to the unconsolidated financial statements (Jermakowicz & Gornik-Tomaszewski, 2003). In Sweden companies that were not listed where given the opportunity to choose whether to apply IFRS on their consolidated report or continue to follow the domestic regulations. Whether unlisted companies should adopt IFRS where a frequently debated issue during the transition to IFRS in 2005 and the question has once again arisen because of the K3-project. The K3 regulation means that starting at 2014 unlisted companies can choose to follow the new K3 regulation for their consolidated report or switch to IFRS (Bokföringsnämnden, 2011).

K3 is imposed by Bokföringsnämnden (BFN). BFN “is a governmental body with the main objective of promoting the development of, in Sweden, generally accepted accounting principles regarding current recording as well as the setting up of annual accounts” (Bokföringsnämnden, 2012). BFN started their K-project in 2004 and the purpose where partly to develop four different kinds of regulations called K1, K2, K3 and K4. K3 is supposed to be the main framework for unlisted companies when compiling their annual and consolidated reports (Bokföringsnämnden, 2009). K3 is considered to be highly important for the development of GAAP in Sweden and a reasonable adjustment to the international development. K3 is a principle based set of standards and with this in notice K3 must be seen as very comprehensive since it consists of more than 200 pages (Balans nr 3, 2011). K3 is based on IFRS for small and medium sized enterprises. Hence the new regulations will differ from both full IFRS and Redovisningsrådets rekommendationer (RR) (Civilekonomernas Information AB). Even though K3 is based on IFRS for SME, K3 is to be seen as an independent regulation and when considered necessary departure from IFRS is accepted (Bokföringsnämnden, 2011).

IFRS for SMEs was published in 2009 and was developed under a five year process and is designed for SMEs. SMEs are defined as entities that are not publicly traded and that are not banks or similar financial institutions. The project IFRS for SME was undertaken due to that users of financial statements of SMEs does not have the same needs as users of the financial statements concerning listed companies. Full IFRS where developed to meet the
needs of equity investors in companies in public capital markets and cover a wide range of issues. Since full IFRS is so detailed many SMEs experienced that full IFRS imposed a burden, therefore IFRS for SMEs where derived from full IFRS with appropriate modifications (IFRS Foundation, 2012).

1.2 Problem Discussion

The debate about K3 is highly relevant at the moment, BFN has stated that entities must apply the K3-regulation for their annual reports of 2014 and that earlier adoption of K3 is allowed. This statement implies that entities which currently are under RR1-RR29 have to practice one of the K-regulations (BFN, 2011).

On the 8th of June 2012 a final decision regarding K3 annual reports and consolidated reports has been made and BFN states on their homepage that K3 is the main alternative when compiling the annual and consolidated report for unlisted companies, with exception for entities using IFRS for their consolidated report (2012). The decision by BFN to implement a new set of standards implies that a lot of Swedish unlisted entities have to leave their current standards and adopt the K3-regulation. One can conclude that this decision is going to lead to a change in one way or another. Since unlisted companies in Sweden are allowed to use IFRS for their consolidated report these kinds of companies are now facing a choice, whether to change to K3 or to IFRS. Some of these companies might have subsidiaries in different countries around the world and the increase in comparability between financial information that IFRS will provide can help these companies to stay competitive. Also, large companies operating on an international market might already disclose a lot of the information that IFRS requires. If so, a move to IFRS instead of K3 might be beneficial.

In the past according to IFRS foundation (2012) some entities feels like the use of full IFRS is too big a burden and that the costs outweighs the benefits. The underlying reason is that full IFRS requires a lot of disclosure and smaller companies might not gain from disclosing the amount of information needed to fulfill the requirements since they are not traded on the stock market. But Marton, et al, (2010) states that IFRS is not only stock market oriented, and when companies apply IFRS the comparability between entities will increase. Hence, the new K3 regulation creates a reason for companies to at least investi-
gate what kind of changes that has to be made to their consolidated report to fulfil the require-
ments of full IFRS.
If a switch to IFRS where to occur the first step would be to identify the differences in
terms of accounting and effects on compensation agreements and other contracts directly
or indirectly related to accounting metrics (Langmead, et al., 2011 ). Many of the IAS/IFRS
standards have a Swedish equivalent and therefore a major change might not be needed.
But there are some standards which are considered more complex than others, two of
those standards are IAS 32 and IAS 39 and they are both concerning financial instruments.
The underlying reason why these standards may lead to technical difficulties is that fair val-
ue is used (Axelman, Phillips & Wahlquist). After recognizing the extra information needed
a cost-benefit analysis can be carried out the be able to determine whether the transition in-
to full IFRS is a beneficial option or not (Langmead, et al., 2011).

1.3 Research Questions

1.3.1 Main Issue

From 31th of December 2013 annual and consolidated reports for unlisted companies
must be compiled in accordance with K3 with the exception of IFRS-companies. This de-
cision by BFN implies that parent companies can choose whether to switch to K3 or IFRS
for their consolidated report. Several Swedish companies are now facing this choice.
Taking the presented background and problem discussion into consideration the main is-
 sue of this thesis is:

How does a transition in to full IFRS instead of K3 affect the amount of work required by non-listed group
entities and what are the benefits?

1.3.2 Sub queries

The following sub queries aims to clarify the requirements companies need to fulfill con-
cerning disclosure in an eventual transition into full IFRS:

How much additional information must companies disclose based on their current consolidated report?

What is the level of difficulty to obtain the additional information?
1.4 Purpose

The purpose of this thesis is through a qualitative approach to investigate the extra amount of work required of non-listed group companies to transit into full IFRS instead of the new K3 regulation and the benefits of IFRS. The main purpose of the thesis is not to compare K3 with IFRS as such but to determine the amount of additional work and information needed for non-listed groups to fulfill the requirements of IFRS. Furthermore the thesis aims to clarify to what cost this additional information can be obtained.

1.5 Delimitations

The K3-regulation and the K-project will only briefly be covered in this thesis, since the main question to answer is whether adoption of IFRS is beneficial or not, although the imposing of K3 is the underlying reason why a transition to IFRS is investigated in this study. Also, focus will be on differences between full IFRS and current Swedish accounting recommendations such as RR and BFNs general principles. When the current accounting policies align with full IFRS no further investigation of those particular standards will take place. Hence, emphasis will be to discover and analyze potential differences between IFRS and non-listed entities current consolidated reports, no calculations to determine the exact numbers in the report under IFRS will take place. Other limitations will be that a greater focus will be upon IFRS/IAS standards considered complex and standards lacking a Swedish equivalent such as IAS 39. And since no academic articles have been written about the K-project the main source concerning this issue will be BFN.
2 Review of Literature

The second chapter of this thesis presents relevant theories and previous studies on the issue. Firstly some historical information regarding IAS/IFRS & the K-project will be presented. This is followed by some advantages and obstacles experienced by previous IFRS adopters, and a closer look into standards considered especially complex. Finally some expectations on a first-time adopter will be presented.

2.1 IFRS/IAS

IASC was formed in 1973 and is the publisher of the IAS standards, in 2001 IASC became IASB and the standards published by IASB are called IFRS. IFRS are seen as principal based standards rather than rule based. Principal based standards takes their starting point out of accounting principles from an accepted conceptual framework. Since IFRS standards are not rule based they do not give the users exact guidance of what to do, instead these kind of standards leaves room for professional judgments within the conceptual framework (Jermakowicz & Gornik-Tomszewskia, 2003).

IFRS are these days the only set of accountings standards for EU entities operating on a regulated market and has been so since 2005. The European Commission proposed the IFRS regulation in 2001 and during the summer of 2002 the Council of Ministers of the European Union approved the IAS regulation. The aim of the IAS regulation are to eliminate cross-border trading and help to form a single European capital market, and when it was imposed back in 2005 Deloitte and Touche Tohmatsu stated that IFRS was used in 64 countries for all domestic listed companies and another 38 countries had given their permission for some non-listed companies to use IFRS. Hence this imposes large consequences on the European financial reporting and is considered the biggest change in over 30 years (Jermakowicz & Gornik-Tomszewskia, 2003).

As stated earlier the IAS regulation is mandatory for listed European companies but the regulation allows each member state of EU to set up rules for other companies and for legal persons that are part of a consolidation where the parent company is listed. Sweden decided to allow unlisted companies to compile their consolidated report with IFRS but not permit the use of IFRS for legal persons. This was due to the connection with taxation (Marton et al., 2010). Since Sweden has a strong connection between taxation and accounting it has been a huge challenge to adjust Sweden’s continental view with the Anglo-Saxon...
view of IFRS, although it is necessary in order to create harmonization (Fagerström & Lundh, 2005).

2.2 BFNs K-project

BFN has since the year of 2004 worked on the so called K-project, a project which aims to develop a common set of standards for annual reports for Swedish non-listed entities. The project will contain out of four regulations K1, K2, K3 and K4 and the starting point will be BFL. Figure 1 below illustrates the relationship between the different K-regulations and the legislation.

Voluntary choice for:
1) Small entities (1 ch, 36 ÅRL)
2) Group companies

Figure 1. Relationship between the different K-regulations and the legislation.
The left part of Figure 1 shows how the current accounts to be completed in accordance with BFL, hence it is BFL that decides which set of regulation a company must or can practice. K3 is supposed to be the main alternative and has been revised partly from IFRS for SMEs. K4 are meant for those unlisted companies that are allowed to use IFRS for their consolidated report (BFN, 2012).

2.2.1 K3

On the 8th of June 2012 BFN announced that K3 will be the new main regulatory framework for non-listed companies when compiling annual and consolidated reports and must be adopted the latest 2013 and early adoption is allowed. K3 is principal based just like IFRS, and even though some parts of K3 are based on IFRS for SMEs the regulation is considered as an independent framework. The fact that K3 is principal based can mainly be discovered in the second chapter which defines the principles covered by the framework. K3 must be followed to a whole and deviations are not allowed, when K3 lack to give enough guidance about a particular transaction then the primary option is to seek answers in other chapters in K3 that address similar issues. Alternatively, answers can be found by looking in to the second chapter of K3 where the principles are stated (BFN, 2012).

Even though K3 is to be seen as an independent framework a lot of similarities with IFRS for SMEs can be identified. K3 has the same capital structure as IFRS for SMEs and the comment text is partly from IFRS for SMEs. But K3 do not have the same disclosure requirements as IFRS for SMEs which makes K3 less extensive. There are rules in IFRS for SMEs which is not accepted in the Swedish legislation hence adjustments has also been made to align with ÅRL and IL (Far Info nr 6/7, 2010).

Peter Nilsson (2011) states that one major difference between the two frameworks are that according to ÅRL only a few assets are allowed to be valued at fair value while IFRS for SMEs offers greater possibilities in that matter.
2.3 Advantages and Obstacles with a IFRS transition

A great amount of studies and investigations have been performed in order to measure the consequences that companies have experienced after the adoption of international accounting standards such as IFRS. Some previous studies will be presented below in order to show the advantages and obstacles in the transition process. Of course, not all studies have concluded the same result. According to Brown (2011) the outcome of the study will be affected by several factors such as countries accounting history, capital market and also differences in sample and the use of a wide range of proxies for the same underlying idea.

2.3.1 Advantages

One of the main goals when the IAS-regulation where undertaken in 2002 where to achieve greater harmonization between countries financial reports and the possibility to compare financial statements, this in order to raise market efficiency and lower cost of capital.

In a study undertaken by Jermakowicz & Gornik-Tomaszewskia (2006) shows that EU companies that have implemented IFRS experienced both greater comparability and transparency in their accounting. Greater comparability and transparency where seen as the main benefits with the IFRS transition. These consequences was welcomed with open arms from companies since the study also showed that IFRS where not only adopted for consolidation purposes but with a goal of achieving internal and external harmonization. Better harmonization and comparability are of course two positive aspects, but to be able to really compare financial information and take advantage of it the information must obtain a sufficient level of quality. Under the IFRS the disclosure and accounting quality has improved significantly both statistically and economically this improvement that can be discovered regardless if a company is a voluntary or a mandatory adopter of IFRS (Daske & Gebhardt, 2006).

The capital market today is well developed and as an outside investor you will require some form of reward to supply more capital. This reward is a cost for a company and by lowering that reward a company will lower their cost of capital. There are different ways of lowering cost of capital and IFRS can be one solution to it. One reason why outside investors require a reward or a premium is because managers in a company have more information
than the outsiders do. Outsiders do not know how hard managers will work or how well managers will manage the capital invested. Since managers are rational human beings investors knows that they sometimes will operate in their own self-interest, this well-known phenomena is called agency problems. This problem can partly be solved by IFRS since IFRS underpin how capital is allocated and performance is monitored and rewarded (Brown, 2011).

2.3.2 Obstacles

IFRS can be seen as the biggest development of financial reporting since Paciloi’s double-entry bookkeeping and more revolutionary than the adoption of the fourth and seventh EU directive (Hoogendoorn, 2006). Furthermore Jermakowicz & Gornik-Tomaszewskia (2003) states that “The consequences of implementing IFRS will undoubtedly go far beyond a simple change of accounting rules”. One can understand that such a large project as implementing IFRS will result in a lot of work and problems that has to be solved, some problems more complex than others. Looking back a couple of years when IFRS first became mandatory for EU listed companies in 2005, one problem then where that listed companies did not seem to understand how complex IFRS really where and they did underestimate the cost and effects of the implementations process (Hoogendorn, 2006). Many entities did not expect all the new areas of disclosure and a study by Jermakowicz & Gornik-Tomaszewskia (2006) showed that 40 out of the 74 first-time adopters studied had to add at least one more area of disclosure and several companies had to add multiple new disclosures.

One of the major obstacles is that IFRS use fair value for assets and liabilities as their primary basis. The underlying reason to this is that relevance of the reports will improve. But fair value might increase the volatility in the valuation of assets (Jermakowicz & Gornik-Tomaszewskia, 2006). Jermakowicz & Gornik-Tomaszewskias opinion regarding fair value is backed by Hoogendoorn (2006) which implies that fair value is to been seen as a large reason why IFRS means a dramatic shift in European accounting. Furthermore Hoogendoorn (2006) states that using fair value as a primary basis can lead to lack of comparability. In a study which aims to determine the consequences for UK listed entities Caims (2004) reaches the same conclusion and claims that the recognition of all derivatives at fair value on the balance sheet will be the most substantial effect of adopting IFRS.
When studying entities that have adopted IFRS it is clear that entities find some standards more problematic than other. There are specifically two standards considered extra complex and carries a lot of extra work, IAS 32 and IAS 39 both concerning financial instruments. IAS 12 (Accounting for taxes on income) and IFRS 2 (Shared-based payment) were also considered complex by companies that have adopted IFRS (Jermakowicz & Gornik-Tomaszewskia, 2006).

Furthermore Hoogendoorn (2006) lists some other standards that have resulted in difficulties in practice:

- IAS 19 Employee Benefits
- IAS 36 Impairments of Assets
- IAS 38 Intangible Assets
- IFRS 3 Business combinations

When looking at the IFRS transition from a Swedish point of view one can conclude that a lot of the IAS/IFRS standards have a Swedish counterpart and will not cause a big change, in an accounting point of view. But like in the rest of Europe, IFRS standards concerning fair value will carry the biggest change for Swedish companies as well (Axelman, Phillips & Wahlquist, 2003). Many of the standards listed above did cause problems for Swedish companies as well when the transition in to IFRS was made. Hjelmström and Schuster (2011) showed that cost of compliance was seen as a big issue for Swedish entities and mainly because the management did not believe that the mandated accounting policies did reflect the underlying economic transactions being accounted for.

Studies have also shown that Swedish entities have faced the problem that even if there is Swedish counterpart of an IFRS standard the auditors have been stricter when it comes to the IFRS standard, and “cheating” with a specific rule that where accepted by the auditor under the Swedish standards no longer is, even though it is the same rule (Hjelmström and Schuster, 2011).

It is not only in Europe and Sweden these “complex” standards cause problems. A study undertaken by Jones and Higgins in 2006 concerning the IFRS transition in Australia yields the same result, and the participants of the study list IAS 38 and IAS 39 as the most complex standards. Mainly due to that Australia did not have any existing domestic counterpart for IAS 38 and 39. The paper also showed that a shift to IFRS would also increase the amount of disclosure required in comparison with Australian GAAP (Higgins and Jones, 2006).
It is not only that the standards listed above are seen as the most complex, they are also expected to have the biggest impact on equity and net income (Ernstberger, Froschhammer and Haller, 2009).

2.4 Complex Standards

2.4.1 IAS 39 – Financial Instruments: Recognition and Measurement

IAS 39 was released in 1999 and came into practice in 2001 (Togher, 2003), and when it first was initiated the standard was considered so complex that a special committee took form to answer question from companies regarding IAS 39. In a study of 13 countries across Europe that were to implement IFRS showed that 8 of these countries did experience IAS 39 as the main barrier to convergence (Larson and Street, 2004). The standard is handling three different areas:

- Recognition & Derecognition: When to include and remove financial instruments from the balance sheet.
- Measurement: How financial instruments are valued in the balance sheet and how value changes effects the income statement.
- Hedging: How to show the effect of hedging on the balance sheet and income statement (Togher, 2003).

One of the main reasons why IAS 39 has caused problems for Swedish companies is because there is now Swedish standard equivalent to IAS 39. A study concerning Swedish entities transition in to IFRS shows that most of the participants in the study found IAS 39 to give rise to problems (Hjelmström and Schuster, 2011).

To know whether IAS 39 is applicable one must determine what a financial instrument is, and a financial instrument is defined as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity (Axelman, Phillips and Wahlquist, 2003).

The recognition of a financial instrument in the balance sheet is fairly straight forward, and financial instruments should be recognized in the balance sheet when a company has the right or the obligation for a future payment. Derecognition of financial instruments can be complex since even though the financial instrument has been sold the party that sold the instrument might still have some obligations in terms of surrender clause, and might still be considered as the owner. IAS 39 states that it requires special judgments to determine if a
derecognition should take place or not. One should consider which party that has control over the instrument and also the risks and benefits associated with that instrument (IASB, IAS 39).

The main principle in IAS 39 is that financial assets are valued at fair value with the exception of financial investments with fixed maturities that are intended to be held to maturity and receivables such as delivery of goods. Financial debts intended for trading are reported at fair value, and every other financial debt is reported at amortised cost (Jones and Venuti, 2005). In the valuation process the first step is to decide how the instrument is valued initially, which is straight forward since the fair value is the same as the purchase value. It is more problematic after the acquisition since now the financial instrument must be divided into different categories to determine whether fair or purchase value is to be used. If fair value is used the next step is to determine how the value changes will affect the reports, it will either have an effect on other comprehensive income or on the net income (Jones and Venuti, 2005). Hedge accounting under IAS 39 is voluntary and the use of hedge accounting differs depending on for example size of the firm. Hedge accounting is allowed under quite restrictive and complex conditions and a study by Glaum and Klöcker (2011) shows that many entities choose not to apply hedge accounting due the high cost of meeting the demands set up by IAS 39.

2.4.2 IAS 32 – Financial Instruments: Disclosure and Presentation

IAS 32 concerns how financial instruments are classified and what disclosure that has to be provided regarding financial instruments that are reported in the balance sheet, IAS 32 requires that IAS 39 is applied (Axelman, Phillips and Wahlquist, 2003).

IAS 32 differs in some aspects in comparison with Swedish regulations, and the use of IAS 32 instead of RR 27 requires some changes. According to IAS 32 some preference shares are to be reported as a liability and the dividend as an interest expense, this is not in line with ÅRL. Also, the approach to determine the fair value is a bit different between IAS 32 and RR 27. RR 27 takes deduction cost in to consideration while IAS 32 does not (Axelman, Phillips and Wahlquist, 2003).
2.4.3 IAS 12 – Income Taxes

IAS 12 addresses how current and deferred tax should be reported. Deferred tax occurs when there are differences between the book value and the tax value (Axelman, Phillips and Wahlquist, 2003), and current tax is the tax that has to be paid to the taxation authorities for the period at hand. When reporting deferred tax under IFRS and IAS 12 the regulation says that the starting point is that the tax should be reported over the balance sheet, hence focus is upon book value and tax value concerning liabilities and assets (Marton et al., 2010).

Differences between book and tax value are defined as temporary differences (Axelman, Phillips and Wahlquist, 2003), and there are two kinds of temporary differences, taxable and deductible temporary differences. An example of taxable temporary difference is when an income is taxable for a later period than reported, and deductible temporary differences may occur when impairment of an asset is done in the books but deduction is not permitted by tax regulation until the asset is sold. These temporary differences give rise to either a deferred tax debt or tax claim (Marton et al., 2010).

Regarding how to report current and deferred tax over the income statement one method is overrepresented and most frequently current and deferred tax is reported under the same item. Using this method there must be information about the how much of the item that consists of current and deferred tax (IASB, IAS 12).

In Sweden RR 9 and BFNAR 2001:1 corresponds to IAS 12 and BFNAR 2001:1 requires less disclosure than both RR 9 and IAS 12 (Hjelmström and Schuster, 2011). RR 9 is relatively consistent with IAS 12 but RR 9 contains one exception that cannot be found in IAS 12. An exception concerning pure acquisitions that states that if the tax valuation has played major part of the acquisition and a documented connection between the purchase price and valuation of the deferred tax debt can be shown, then the valuation of the deferred tax will be based on the purchase price (Hjelmström and Schuster, 2011).
2.4.4  IFRS 2 – Share-based payment

Ernst & Young (2009) utters that IFRS 2 applies to transactions with employees and third parties, whether settled in cash, other assets or equity instruments, and this is called a share-based payment. Furthermore Ernst & Young believes IFRS 2 to be one of the more challenging accounting standards since it involves complex valuation issues. Marton et al, (2010) shows the issues IFRS 2 aims to answer:

1. How to value share-based payments and will there be an expense for the company?
2. If there is an expense how should it be divided over time?
3. If the expense is divided over time, how fluctuations in value of shares and obligations should be handled in the books.

IASB stated that share-based payments are to be seen as an expense just like an cash compensation (Arce and Giner, 2012), and the value of the transaction can either be determined by valuating the equity instrument issued or valuating the good or the service obtained (Higgins & Jones, 2006). Furthermore, Higgins and Jones (2006) presents in their study that the biggest obstacle experienced by respondents in Australia concerning IFRS 2 is the: “Uncertainty over market valuation methodologies to determine the expense for options”.

2.4.5  IAS 19 – Employee Benefits

IAS 19 outlines the accounting requirements for employee benefits and the benefits are divided in to four categories (Axelman, Phillips and Wahlquist, 2003):

1. Short-term benefits such as wages.
2. Post-employment benefits such as retirement benefits.
3. Other long-term benefits, for example long service leave.
4. Termination benefits.

A main principle of the standard is that the period that the employee earns the benefit is also the period when the cost of providing that benefit should be recognized, rather than when the benefit is actually paid or payable (Amen, 2007).
IAS 19 is by many considered as one of the most complex standards and may cause technical difficulties in terms of computational problems and actuarial gains and losses (Morais, 2010).

Post-employment benefits have been divided in two different plans, defined contribution and defined benefit plans. Under defined contribution plans the company pays fixed contributions in to a fund and that is the company’s only obligation. If there is not sufficient funds to pay all the employees it is not up to the company to solve that problem, hence the employees bears the risk. Any other post-employment benefit plan than a defined contribution plan is to be seen as a defined benefit plan (Swinkels, 2011). These two post-employment benefit plans mainly concerns retirement benefits, and IAS 19 only regulates retirement benefits relating compensation in addition to statutory retirement benefits. The defined contribution plans rarely leads to problems in accounting but defined benefit plans on the other hand is the major reason why IAS 19 is seen complex, this is due to that defined benefit plans requires advanced calculations.

A study of companies in Netherlands have shown that several companies have switch from defined contribution plans instead of defined benefit plans due to the complexity of IAS 19 (Swinkels, 2011).

For example, a company might have to predict an employee’s average salary under the last five year of the employment, hence predictions about the future is required. In order to do so a method called Project Unit Credit Method is used. The method requires that some assumptions must be made in order to determine the present value of the defined benefit obligation. The assumptions are called actuarial assumptions and include both financial and demographical assumptions. When these assumptions are made the future retirement payments can be calculated to a discounted value, and that is the value that is reported in the books (Morais, 2010).

RR released RR 29 in 2002 and that standard is supposed to be consistent with IAS 19 with some exceptions involving how to report defined retirement benefits and that the calculation of retirement benefits are based on actuarial assumptions (Axelman, Phillips and Wahlquist, 2003). Marton et al (2010) states further that companies transiting in to IAS 19 have not experienced major differences to their balance sheet and income statement even though IAS 19 demands a lot of work. An explanation to this might be that in Sweden the government has high responsibility when it comes to retirement benefits.
2.4.6 IAS 36 – Impairment of Assets

IAS 36 seeks to ensure that an asset is not valued higher than the recoverable amount and how to determine the recoverable amount (Deloitte, 2012). The recoverable amount is seen as the higher of fair value less costs to sell and the value in use. It can also be expressed as the gain the asset can provide the entity, either by selling the asset or the by the future cash flows the asset will bring through production (Glaum, et al., 2012). Axelman, Phillips and Wahlquist (2003) utters that IAS 36 covers when impairment losses must be recognized and states the following, if the recoverable amount is higher than reported value then the asset is impaired, hence an impairment loss must be reported. Furthermore they say that IAS 36 should be applied to all assets with some exceptions, such as IAS 2 and IAS 11.

According to IAS 36 intangible asset with an indefinite useful life, intangible asset not yet available for use and goodwill must be measured annually to determine the recoverable value. For other assets a review at each balance sheet date must be done in order to see if there are any indications for an impairment loss, if there are no indications for an impairment loss then it is not necessary to calculate the recoverable value (Glaum, et al., 2012).

Some difficulties companies are facing when adopting IAS 36 is that a lot of disclosure is required in order for the users of the financial statement to be able to determine if necessary impairments losses have been recognized, entities have experienced that comparative disadvantage can arise from the extensive disclosure requirements. A disadvantage arising since a lot of assumptions based to determine cash flows projections in calculating value had to be disclosed, assumptions that could be seen as sensitive forecast information (Hjelmström and Schuster, 2011). It may also be hard to value assets, especially goodwill. Also, it may be a complex process when determining future cash flows for an asset if the assets are part of a production unit comprising of several assets. Then future cash flow must be determined for the whole unit instead of every single asset.

The recognition of impairment for goodwill and common assets such as headquarters and research department may also cause obstacles. Since these kinds of assets do not give rise to cash flows independently and must be seen as a part of a cash-generating unit (Hoogen- dorn, 2006).
If impairment loss has been recognized and reported it may be reversed if future calculations indicate that the recoverable value is less than the higher of fair value less cost to sell and value in use, goodwill is an exception and can never be reversed. The only reason for a reversal to be accepted is if there have been changes in the same judgments which formed the basis for the impairment (Axelman, Phillips and Wahlquist, 2003).

In Sweden impairment of assets are covered by RRs recommendation RR 17 which is a translation of the earlier version of IAS 36 with some exceptions (Marton et al., 2010). In a study investigating different countries expectations of the IFRS transition 5 out of 13 European countries identified IAS 36 as a barrier to convergence with IFRS (Larson & Street, 2004).

### 2.4.7 IAS 38 – Intangible Assets

IAS 38 covers how intangible assets are treated and the standard covers all intangible assets if the asset is not specifically dealt with in another IFRS standard. According to the standard an entity must recognize the asset if certain criteria are met, if that criteria are not met the asset are not to be seen as intangible and seen as an expense when it is incurred. The recognition criteria in IAS 38 are:

- It is probable that the asset will bring economic benefits to the entity in the future and
- The cost of the asset can be measured reliably (Deloitte, 2012).

IAS 38 differs in the recognition process in comparison with most domestic GAAPs and the main concern with IAS 38 has been known to be the de-recognition of intangible assets and the prohibition of internally generated intangible assets (Higgins & Jones, 2006).

IAS 38 is the first standard that includes all intangible assets and since the Swedish RR 15 is based on an earlier version of IAS 38 it is also considered a comprehensive standard for intangible assets. BFNs rules regarding intangible assets treats intangible assets through different standards such as BFN R1 and BFN U 88:16. BFNs recommendation differs in some aspects from RR 15 and hence from IAS 38 as well (Marton et al., 2010). For instance, the main rule for research and development is that expenditure on this item should be recognized as an expense when it is incurred. But an entity can recognize these expenses over the balance sheet if certain conditions are met. This differ from RR 15 and IAS 38.
since according to these standards an entity must recognize the expenses over the balance sheet if the conditions are met, it is not optional as in BFNs standard. Also, when an entity is moving from Swedish standards in to IFRS one adjustment that has to be made is that IAS 38 requires retrospective application (Hjelmström and Schuster, 2011).

2.4.8 IFRS 3 - Business Combinations

“IFRS 3 Business Combinations outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.” (Deloitte, 2012).

As stated above an acquisition of a business must take place for IFRS 3 to be applicable. Hence of major importance is to define a business, “A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors or other owners, members or participants” (IFRS 3 ,Appendix A). Even though IFRS 3 clearly defines the term business it is not easy to identify a business in practice and different entities have made different assessments. Also, when a business combination takes place an acquirer and an acquisition date must be identified, one of the reasons why an acquisition date is of importance is the fact that goodwill must be reported at fair value at the acquisition date (Ernstberger, Haller & Froschhammer, 2009).

When all the identifications are made the most complex question in practice must be answered, which assets and liabilities have the acquirer paid for. In order to answer that question a PPA (Purchase Price Allocation) must take form, and via the PPA recognize and measure identifiable assets and liabilities from the business acquired (Glaum, et al., 2012).

For non-IFRS companies in Sweden the consolidated report will be compiled following RR 1:00 and ÅRL and some differences with IFRS 3 can be identified, for example when step acquisitions are made a new separate PPA will take form for each acquisition (Glaum, et al., 2012).
2.4.9 IFRS 1 – First time adoption of IFRS

Since the adoption of IFRS is a complex and time consuming process IASB issued IFRS 1, First Time Adoption of International Financial Reporting Standards, in order to ease the transition for first time adopters (Jermakowicz and Gornik-Tomaszewski, 2006). The objective of IFRS 1 where to achieve high-quality financial reports through transparent and comparable information over all period presented, provide a suitable starting point for the entities subsequent accounting under IFRS and also that the information can be generated with the benefits exceeding the costs (Jermakowicz and Gornik-Tomaszewski, 2003).

IFRS 1 is only applicable for entities that adopt IFRS for the first time and a first time adopter is defined as an entity that for the first time makes an explicit and unreserved statement that its general purpose financial statement complies with IFRS. An entity is for example a first time adopter if the entities last financial statement where compiled with domestic GAAP that did not fully consist with IFRS or an entity that did compile financial statement in accordance with IFRS for internal use only and the information did not reach external users such as owners and investors (IFRS 1, p.3).

Jermakowicz and Gornik-Tomaszewski (2003) shows that transition to IFRS involves some specific moments, the entity must choose accounting policies that comply with each IFRS standard that has come in to effect at the reporting date. The accounting policies must be the same throughout all periods in their first IFRS financial statement and also in the opening IFRS balance sheet.

Opening balance sheet must be prepared and the main rule is that IFRS should be applied retrospectively, hence like the financial statements have always been compiled with IFRS. There are some exceptions to the main rule, some mandatory and some optional. Optional exceptions concerns business combinations, since it might be hard to recreate a PPA with IFRS that was initially compiled with domestic GAAP. Mandatory exceptions involves areas such as hedging where retroactive compliance is seen as unsuitable since it may lead to lack of reliability (Jermakowicz and Gornik-Tomaszewski, 2003).
IFRS 1 also requires comparative information, and an entity’s first financial statement should at least show one year of comparative information (Jermakowicz and Gornik-Tomaszewski, 2003). If an entity’s first reporting period under IFRS ends 31 of December 2012, comparative information for 2011 must be shown and the transition date to IFRS is considered to be 1 of January 2011 (IFRS1, p.8). An entity is also obligated to explain how the transition to IFRS has affected their reported cash flows, financial performance and financial position. This includes for example reconciliation of equity under domestic GAAP to equity under IFRS and if the company recognized or reversed impairment losses (Jermakowicz and Gornik-Tomaszewski, 2003).
3 Method

The third chapter, method, explains the choice of subject and the reasons to it. Furthermore this chapter explains selection of data where the selection of questions and replies to be studied are presented and explained. Lastly, a quality assessment is presented to measure the credibility of this study.

3.1 Choice of subject

After “BFNs” decision in June 2012 to finally determine the K3 regulation and establish the regulation as the main alternative for Swedish non-listed entities it gave rise to an interesting question. Since Swedish non-listed group companies are allowed to follow full IFRS instead of Swedish GAAP, a switch to K3 and new accounting standards gives an initiative for non-listed group companies still reporting according to Swedish GAAP to investigate what a transition in to IFRS instead of K3 would demand from them.

Even though it is not required for non-listed group companies to report according to IFRS it may lead to advantages. Considering the capital oriented international market today the demand from different stakeholders on transparency and disclosure, IFRS might give a competitive advantage over entities staying with Swedish GAAP. Taking in to consideration that many Swedish non-listed entities operates in and has subsidiaries in different countries, and at this day already have fairly high developed annual reports with a lot of information and probably a lot of information for internal use. The author finds it very interesting to investigate what a transition in to IFRS would pose in form of changes in accounting principles and level of extra disclosure added.

3.2 Choice of entity

In this thesis the author aims to examine a possible transition in to IFRS instead of K3 for Liljedahl Group. Several reasons can explain the choice of Liljedahl Group in addition to the obvious reasons such as, Liljedahl Group is a Swedish non-listed group company and willing to supply required information and participate in interviews. Liljedahl Group also operates at an international market with subsidiaries in different countries. Their head of-
Office is located in Värnamo, which is considered as a convenient geographical location that makes it easier to maintain a good contact and arrange person to person meetings.

### 3.2.1 Choice of respondents

After the first communication with Liljedahl Group a contact with Gunilla Lilliecreutz, Group Chief Accountant and Torbjörn Persson, CFO at Liljedahl Group where established. Gunilla and Torbjörn are highly involved in the accounting process at Liljedahl Group today and have access to all information needed. Gunilla and Torbjörn will be the main respondents in this thesis and participate in the qualitative interviews.

Contact has also been established with an expert in the area of IFRS, this in order to get an independent view of the choice Liljedahl Group now are facing. Dan Phillips, executive director, authorized public accountant at Ernst & Young’s IFRS desk where chosen as respondent. Ernst & Young where chosen due to the fact that Liljedahl Group have Ernst & Young to audit their financial statement and Dan Phillips due to his expertise in the matter at hand.

All respondents have confirmed the use of their name in the report.

### 3.3 Choice of methods

Different methods can be used for different studies, but when undertaking a business study the researcher must decide whether to use a qualitative or quantitative method (Ghauri and Gronhaug, 2010). The elementary difference between these two methods is that with a quantitative method the researcher transforms the information collected to numbers and amounts, and performs statistical analyses (Holme and Solvang, 1997). Since this thesis aims to explain the impact a transition in to IFRS instead of K3 would have on Liljedahl Group a qualitative method is more useful. This since a qualitative approach allows us to collect specific information about a limited type of entities, in this case Liljedahl Group and gain a deeper understanding in detail about company (Jacobsen, 2002).

The thesis will partly be based on interviews with open questions that give the respondents the possibility to answer the questions with their own words and express their opinions, and this can only be achieved by using a qualitative approach. By using a qualitative approach a high internal validity is often obtained and “correct” meaning of a situation can be explained (Jacobsen, 2002).
3.3.1 Explorative single case

This study takes its form of an explorative single case investigating Liljedahl Group. This is motivated by the fact that with a single case it is possible to deeper investigate the situation non-listed group companies are facing whether to choose K3 or IFRS. A single case makes it possible to adjust the study to the special needs of one company and it can produce a benchmark for other companies of how much extra work that is needed to adopt IFRS instead of K3, and it may also encourage other entities to undertake their own investigation and explore the possibilities of adopting IFRS. By studying one company in a single case helps the study to be more closely connected to reality and provides a hand on approach which would be hard to achieve if a general approach to the K3 and IFRS transition were to be used.

The downsides of using a explorative single case is that areas that might have been interesting for other types of entities may be overlooked since they are not vital for Liljedahl Group. Another disadvantage for the single case is that the entity investigated probably would like to get an overall picture of how IFRS will impact their company and that makes it difficult to explore complex areas such as financial instruments and employee benefits as deep as required to gain a good understanding.

Since one of the objectives with this study is to generate a platform for other Swedish entities that are in the same situation as Liljedahl Group an explorative case study can be seen as a useful method. This study can be seen as a preliminary investigation and generate ideas for other companies (Ryan, Scapens and Theobald, 2002).

3.4 Frame of Reference

By studying academic articles describing the transition in to IFRS when it became mandatory in 2005 helped to gain a deeper understanding of the problems companies faced in the transition, and also which IFRS standards that were considered extra complex to adopt. It is this knowledge along with the K3 project that forms the fundamental parts in the frame of reference.

The academic articles have been attained through different databases such as, Business Source Premier, Science Direct and Taylor & Francis. The following key words have been used to find relevant articles, transition to IFRS, adopting IFRS, first time IFRS and IFRS. In some cases articles from the Swedish magazine Balans were used, in these cases the arti-
articles were found at the database FAR Komplett. To gain access to IFRS-volume 2011 and the specific IFRS/IAS standards FAR Komplett was once again used. Due to lack of academic articles in the area concerning the K3 regulation the primary source for information about K3 have been collected from BFN.

3.5 Data Collection

In the beginning of the work with this thesis the author aimed to gain knowledge in the area studied and also to be able to better understand and explain the problem at hand. In order to do so it is most useful to study secondary data (Ghauri and Gronhaug, 2010). The introduction and frame of reference chapters consist out of secondary sources in form of academic articles, literature and information gathered at IASB:s and BFN:s homepage. Ghauri and Gronhaug (2010) states that when collecting secondary date from a homepage one must bear in mind that the information are prepared in a different purpose and can be biased or exaggerated. Since the information collected at both IASB: s and BFN: s homepage is to some extent reviewed by government agencies this is not considered as an issue.

The thesis also contains primary data in form of qualitative interviews and an advantage with primary data is that they are collected for the particular project at hand (Ghauri and Gronhaug, 2010). By carrying out the interviews the aim were to gain internal information about Liljedahl Group and the professional opinion from Dan Phillips in this specific matter, objectives that could not have been met with secondary data.

3.5.1 Interview approach

The first three shorter interviews were carried out over the phone for different reasons, mainly because of the geographical distance between the author and the respondents. The reduction in expenses related to travelling which is an advantage with phone interviews (Jacobsen, 2002) outweighed the advantages gained form a personal interview. Disadvantages with phone interviews can be that respondents have difficulties talking about sensitive topics (Jacobsen, 2002), this was not considered an issue in this case.

The comprehensive interview did occur at Liljedahl Groups head office, the main reason for this is because the interview occurred in conjunction with the presentation of the results from the first part of the empirical findings. Although the author believes that same quality could have been obtained from a phone interview, partly because the author and
Liljedahl Group already had met and a trust between the two parts had already been formed. Lack of trust might be a problem using phone interviews (Jacobsen, 2002).

All the interviews carried out in this report have been recorded with the permission of the respondents. The interviews were recorded since it enables the responses from the interview to be permanently documented and allows the author to study the interviews several times when analyzing the answers (Denscombe, 2009). Jacobsen (2002) state that for a good conversation to occur under the interview eye contact is necessary, hence recording is of great use for the personal interview since it enables the interviewer to focus on the respondents instead of taking notes.

The questions that were used in the interviews are presented in the table below and are compiled from the result the IFRS disclosure checklist yielded which in its turn is based on the complex standards identified in the frame of reference. Hence, the interview questions used serve a special purpose and are connected to the literature studied. As can be noted financial instruments and employee benefits counts for 50 % of the interview questions, which is in line with the literature of Hoogendorn (2006) and Larson & Street (2004) for instance. The questions concerning employee benefits deals almost exclusively with defined benefit plans since this area of IAS 19 is considered most complex as identified by Morais (2010).
3.5.2 Empirical Inquiry

To be able to answer the first sub query “How much additional information must companies disclose based on their current consolidated report?” differences in terms of accounting principles and disclosure between Liljedahl Groups current accounting standards and IFRS were to be identified. In order to do so the Swedish standards were compared with the corresponding IFRS standards and Liljedahl Groups consolidated report were compared to Ernst & Young’s International GAAP Disclosure Checklist based on IFRS. The starting point was to compare the complex IFRS standards recognized in the frame of reference.

To answer the main issue and the second sub query the rest of the research are based on qualitative interviews with Liljedahl Groups accounting manager Gunilla Lilliecreutz and CFO Torbjörn Persson and Dan Phillips executive director, authorized public accountant at Ernst & Young's IFRS desk.

To start with three shorter interviews concerning the main issue "How does a transition in to full IFRS instead of K3 affect the amount of work required by non-listed group entities?” were carried out with each one of the respondents. The respondents from Liljedahl Group were given the same questions (Appendix 1) but were interviewed separately, this because the author wanted to obtain their individual perceptions about a transitions in to IFRS. When the first interview were carried out Liljedahl Group had not been informed of the result that the disclosure checklist had yield, this in order to be able to compare their perceptions about a transition in to IFRS before and after they had the knowledge about the level of extra disclosure needed to compile with IFRS. Liljedahl Groups respondents did not receive the questions in advance, this approach were chosen to be sure that their personal opinions would be reflected in the interview and disable the opportunity of the two respondents discussing the questions with each other. The interview with Dan Phillips contained out of quite similar questions (Appendix 2) to the one with Liljedahl Group, and the aim of this interview was to gain insight in the opinions of an expert in the subject. Qualitative interviews were selected since this method is most effective when opinions of the individual are to be reflected (Jacobsen, 2002) which was the case here. Also with qualitative interviews it is possible to let the respondents affect the development of the conversation, something that cannot be obtained when using a quantitative approach (Holme and Solvang, 1997).

After the shorter interviews the results obtained from the disclosure checklist were presented for Liljedahl Group and a more comprehensive interview with Gunilla Lilliecreutz...
and Torbjörn Persson together where undertaken to shed light on the last sub query “How much additional information must companies disclose based on their current consolidated report?”. 18 questions (Appendix 3) were compiled out of the information presented in the first part of the empirical findings.

<table>
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<th>Questions</th>
<th>Subject area</th>
<th>Interview Questions</th>
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| Sub query: What is the level of difficulty to obtain the additional information? (Gunilla Lilliecreutz & Torbjörn Persson) | Financial Instruments (1-5) | 1. How do you believe the division of financial instrument will affect Liljedahl Group? The following categories is required:  
   i. Financial assets at fair value through profit or loss  
   ii. Held-to-maturity investments  
   iii. Loans and receivables  
   iv. Available-for-sale financial assets  
   v. Financial liabilities at fair value through profit or loss  
   vi. Financial liabilities measured at amortised cost |
| | Income Taxes (6-8) | 2. How will the disclosure requirements concerning income, expense and gains or losses connected to each category of financial instruments affect Liljedahl Group? |
| | Employee Benefits (9-11) | 3. Do you see any problems in the process of determining fair value and amortised cost on financial instruments? |
| | Impairment (12-13) | 4. If hedge accounting are to be applied, how do you believe the extensive requirements of documentation will affect Liljedahl Group with respect to:  
   i. How to measure the effectiveness of the hedge?  
   ii. The nature of the risks being hedged |
| | Intangible Assets (14-15) | 5. How will disclosure concerning methods, techniques and assumptions used to determine fair value affect Liljedahl Group? |
| | Business Combinations (16) | 6. How will the disclosure requirement that a specification of deferred tax assets and tax liabilities is needed affect Liljedahl Group? |
| | Leasing (17) | 7. How will the disclosure concerning the connection between tax expense or income of the period related to the calculation of the tax rate affect Liljedahl Group? |
| | | 8. Do you find any difficulties in reporting the different tax rates from the countries Liljedahl Group have subsidiaries in? |
| | | 9. Does Liljedahl Group have any plan assets connected to their defined benefit plans? |
| | | 10. How will the disclosure requirements concerning the most important actuarial assumptions such as discount rate, expected rate of salary increases and medical cost trend rates affect Liljedahl Group? |
### Main Question

**How does a transition into full IFRS instead of K3 affect the amount of work required by non-listed group entities and what are the benefits?**

(Dan Phillips)

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<th>IFRS</th>
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<th>K3</th>
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1. According to you what are the advantages respectively disadvantages for non-listed groups that would adopt IFRS instead of K3?

2. Are you of the opinion that a transition to IFRS would impose more work for non-listed groups that are currently under RR and BFN?
   a. If the answer is yes: Which specific areas would demand most effort?
   b. If the answer is no: Why not?

3. If a transition to IFRS instead of K3 were to occur, what would be the major differences?

4. Since K3 is partly derived from IFRS for SMEs which is a simplification of full IFRS, is it correct to say that:
   a. The major differences between K3 and full IFRS are not the accounting principles but the disclosure requirements?

---

### How will the following disclosures affect Liljedahl Group?

11. How will the following disclosures affect Liljedahl Group?
   i. Actuarial gains and losses
   ii. Expected rates of return on plan assets
   iii. Fair value and expenses on plan assets
   iv. Expected salary increase for participants of the defined benefit plan
   v. Changes in medical costs

12. How will the requirement that goodwill need to be tested for impairment annually affect Liljedahl Group?

13. How will the requirement concerning that the amount of impairment losses recognized and reversed need to be disclosed affect Liljedahl Group?

14. How will the disclosure concerning if intangible assets have a definite or indefinite lifetime affect Liljedahl Group?

15. How will Liljedahl Group be affected by the requirement that factors used to determine that an intangible asset has a useful life that is indefinite and the value of the asset must be disclosed?

16. How will the following disclosures affect Liljedahl Group?
   i. Description of the acquiree
   ii. The primary reasons for the business combination
   iii. The acquisition date fair value of the total consideration transferred
   iv. A qualitative description of the factors that make up the goodwill recognized
   v. Acquisition-date fair value of each major class of consideration, such as: assets acquired and liabilities assumed

17. How will Liljedahl Group be affected of the regulation that all leasing contracts can no longer be classified as operational?

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### Main Question

**How does a transition into full IFRS instead of K3 affect the amount of work required by non-listed group entities and what are the benefits?**

(Dan Phillips)

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1. According to you what are the advantages respectively disadvantages for non-listed groups that would adopt IFRS instead of K3?

2. Do you believe that a transition to IFRS instead of K3 would impose a lot of extra work for Liljedahl Group?

3. What are your expectations on IFRS?
3.6 Analysis

Under this chapter the review of literature and the empirical findings will set against each other in order to examine the outcome of the disclosure checklist and interviews with previous studies. The analysis is being presented with the same structure as the empirical findings. Hence, the research questions will be presented one by one.

The analysis part will try to show Liljedahl Groups perception to IFRS and the consequences it would bring and to compare this to previous studies on the IFRS transition. Also, Dan Phillips opinion in the IFRS versus K3 matter will be presented.

3.7 Validity and reliability

Jacobsen (2002) explains that for a thesis to be valid the problem investigated in the thesis is the problem that is aimed to be investigated, Jacobsen (2002) continues saying that reliability means that the thesis is trustworthy.

This thesis aims to shed light upon differences between a transition in to IFRS or K3 for non-listed group companies by investigating Liljedahl Group. Hence, the qualitative interviews will reflect Liljedahl Groups situation but may serve as a guideline for other non-listed group companies. To ensure the validity to be sufficient yes and no questions were avoided and open questions with follow-up questions were used in order to depict Liljedahl Groups situation in an accurate manner. Also, for the more comprehensive interview with Liljedahl Group and the interview with Dan Phillips the questions were sent in advance in order to make sure that valid information were collected.

Since there have been a number of similar studies around 2005 when the IAS regulation became affective the result of this study can be justified and this increases the reliability, the reliability has also been increased by interviewing an independent IFRS expert.
4 Empirical Findings

Chapter 4, Empirical Findings, will present the result of this thesis. Firstly, the sub query concerning what additional information that has to be added will be presented by looking through an International GAAP disclosure checklist based on IFRS. Secondly the other sub query and the main question will be answered based on the results of the qualitative interviews.

4.1 Liljedahl Group

Liljedahl Group is an industrial and commercial group with operations in the Nordic region, Europe and China. All companies in the Liljedahl Group have leading positions in their respective markets and Liljedahl is a family-owned corporate group with the vision to become one of the leading family-owned groups in the Nordic region. Liljedahl Group has 1195 employees and a turnover above 10 billion SEK in 2011. Liljedahl Groups annual report has been compiled in accordance with ÅRL and general recommendations of BFN. In cases where no general recommendation of BFN exists, the recommendations of RR have been used for guidance (Liljedahl Groups Annual Report, 2011).

4.2 How much additional information must companies disclose based on their current consolidated report?

4.2.1 IAS 39 and IAS 32 - Financial Instruments

By reviewing the disclosure checklist and the standards one can conclude that the chapter regarding Financial Instrument will give rise to a lot of additional information has to be added for Liljedahl Group to reach the demands of IFRS, information in form of new classification and level of disclosure.

One consequence is that there will be value changes when valuating and revaluating to fair value, these changes can be reported either over the income statement or over other comprehensive income.

After the initial recognition the financial assets and liabilities must be divided in to four respectively two categories, presented either in the balance sheet or in notes (IFRS 7, p.8). The different categories are to be valued at either amortized cost or fair value, and IFRS requires that a company must at a minimum distinguish between financial instruments val-
ued at amortized and those valued at fair value. There must also be a separate class for those instruments outside the scope of IAS 39 (IFRS 7, p.B2).

<table>
<thead>
<tr>
<th>Assets</th>
<th>Carrying value</th>
<th>Fair value</th>
<th>Carrying value</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Volvo Group's outstanding currency risk contracts - commercial exposure</td>
<td>Note 16</td>
<td>107</td>
<td>107</td>
<td>197</td>
</tr>
<tr>
<td>The Volvo Group's outstanding raw materials contracts</td>
<td>Note 16</td>
<td>68</td>
<td>68</td>
<td>168</td>
</tr>
<tr>
<td>The Volvo Group's outstanding interest and currency risk contracts - financial exposure</td>
<td>Note 16</td>
<td>4,482</td>
<td>4,482</td>
<td>3,803</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>Note 18</td>
<td>6,662</td>
<td>6,662</td>
<td>9,767</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,519</strong></td>
<td><strong>11,519</strong></td>
<td><strong>13,995</strong></td>
<td><strong>13,995</strong></td>
</tr>
</tbody>
</table>

**Loans receivable and other receivables**

| Accounts receivable | Note 16 | 27,699 | - | 24,433 | - |
| Customer financing receivables | Note 15 | 70,599 | - | 72,688 | - |
| Other interest-bearing receivables | Note 16 | 564 | - | 357 | - |
| **Total** | **106,862** | - | **97,478** | - |

**Financial assets available for sale**

| Shares and participations for which a market value can be calculated | Note 5 | 635 | 635 | 836 | 836 |
| Shares and participations for which a market value cannot be calculated | Note 5 | 1,239 | - | 1,262 | - |
| **Total** | **1,874** | **635** | **2,098** | **836** |

**Cash and cash equivalents**

| Note 18 | 30,379 | 30,379 | 22,966 | 22,966 |

**Liabilities**

| Note 22 | 279 | 279 | 79 | 79 |
| The Volvo Group’s commodity contracts - commercial exposure | 134 | 134 | 41 | 41 |
| The Volvo Group’s outstanding raw materials contract | 4,573 | 4,573 | 4,487 | 4,487 |
| **Total financial liabilities** | 4,736 | 4,736 | 4,607 | 4,607 |

**Financial liabilities valued at amortized cost**

| Short term bank loans and other loans | 86,571 | 90,174 | 82,679 | 88,304 |
| Long term bond loans and other loans | 43,159 | 41,884 | 36,142 | 30,370 |
| **Total** | 129,730 | 131,058 | 118,821 | 118,674 |

**Trade Payables**

| Note 22 | 56,788 | - | 47,250 | - |


Furthermore, supplementary information regarding the characteristics of the instrument and also information to permit reconciliation to the relevant items presented in the statement of financial position must be disclosed (IFRS 7, p.6). If a financial asset is to be valued at amortized value impairment has to be considered, and this must be tested at the end of each reporting period. However a depreciation requires sufficient evidence connected to a specific occurrence (IAS 39, p.58-59).

Since Liljedahl Group works with hedging of metal, currency and interest rate swaps, hedge accounting can be applied. This is not necessary but will result in fewer fluctuations over the income statement. On the other hand, IFRS imposes high requirements on documentation and supplementary information. The documentation must consist of identification, of the instrument hedged, the item or transaction hedged, the risk involved with the hedge...
and how the company are to measure the efficiency of the hedge concerning how the exposure to changes in fair value of the item hedged are covered (IAS 39, p88).

When using IFRS, disclosure must be made concerning items of income, expense, gains or losses either in the comprehensive income statement or in notes (IFRS 7, p.20). It is also necessary to disclose the methods used to determine fair value for each class of financial instruments. If a valuation technique is used and if assumptions are made to determine fair value these must be disclosed as well (IFRS 7, p.27). A hierarchy is used to determine fair value, a hierarchy consisting of different levels. Disclosure must be for each class of financial instruments regarding what level they are categorized in (IFRS 7, p27 A-B).

4.2.2 IAS 12 – Income Taxes

IAS 12 will not give any radical changes to Liljedahl Groups financial statements since the standard is quite consistent with Swedish standards. The changes that will arise are connected to that IAS 12 requires more supplementary information than Swedish standards.

Liljedahl Group will have to add disclosure regarding:

- The relationship between tax expense or income and accounting profit or loss and also how the tax rate was determined.

- The amount for deductible temporary differences, unused tax losses and unused tax credits, and if there is any expiry date.

- For each type of temporary difference and for each type of unused tax losses and unused tax credit the amount of the deferred tax assets and liabilities, and the amount of the deferred tax income or expense. (IAS 12, p.81)
Since Liljedahl Group operates in several jurisdictions it can be clarifying to present a reconciliation regarding the different tax rates in the jurisdictions, but it is not a mandatory disclosure (IAS 12, p.85).

### 4.2.3 IFRS 2 – Shared Based Payments

Liljedahl Group does not use any type of shared based payments in their operation. Hence, this standard will not result in any extra disclosure for Liljedahl Group. If Liljedahl Group were to use shared based payments in the future some questions can arise, for example how social security contributions connected to stock options are to be reported (Marton et al., 2010).

### 4.2.4 IAS 19 – Employee Benefits

IAS 19 will impose some extra work for Liljedahl Group, this extra work is mostly related to that IAS 19 compared to RR 29 demands a lot of disclosure and this disclosure is mainly connected to defined benefit plans.

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**Specification of deferred tax assets and tax liabilities**

<table>
<thead>
<tr>
<th>Deferred tax assets:</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unused tax-loss carryforwards</td>
<td>6,907</td>
<td>7,327</td>
</tr>
<tr>
<td>Other unused tax credits</td>
<td>141</td>
<td>121</td>
</tr>
<tr>
<td>Intercompany profit in inventories</td>
<td>780</td>
<td>711</td>
</tr>
<tr>
<td>Allowance for inventory obsolescence</td>
<td>368</td>
<td>439</td>
</tr>
<tr>
<td>Valuation allowance for doubtful receivables</td>
<td>482</td>
<td>587</td>
</tr>
<tr>
<td>Provisions for warranties</td>
<td>2,067</td>
<td>1,722</td>
</tr>
<tr>
<td>Provisions for residual value risks</td>
<td>288</td>
<td>306</td>
</tr>
<tr>
<td>Provisions for post-employment benefits</td>
<td>1,188</td>
<td>2,068</td>
</tr>
<tr>
<td>Provisions for restructuring measures</td>
<td>42</td>
<td>61</td>
</tr>
<tr>
<td>Adjustment to fair value during corporate acquisitions</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Market value of derivative instruments</td>
<td>28</td>
<td>45</td>
</tr>
<tr>
<td>Land</td>
<td>2,204</td>
<td>2,455</td>
</tr>
<tr>
<td>Other deductible temporary differences</td>
<td>4,320</td>
<td>4,594</td>
</tr>
</tbody>
</table>

**Deferred tax assets before deduction for valuation allowance**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation allowance</td>
<td>(263)</td>
<td>(336)</td>
</tr>
<tr>
<td><strong>Deferred tax assets after deduction for valuation allowance</strong></td>
<td>18,552</td>
<td>20,109</td>
</tr>
<tr>
<td>Netting of deferred tax assets/liabilities</td>
<td>(5,714)</td>
<td>(7,799)</td>
</tr>
<tr>
<td><strong>Deferred tax assets, net</strong></td>
<td>12,838</td>
<td>12,310</td>
</tr>
</tbody>
</table>

The disclosure regarding defined contribution plans are not that comprehensive and it is only required to disclose the amount recognized as an expense for defined contribution plans (IAS 19, p.46).

When using more than one benefit plan the amounts can be disclosed in total or divided in to groups considered useful, for example different countries (IAS 19, p.122). Most of the disclosure requirements for defined benefit plans are found in IAS 19, p.120A. These disclosures are divided in 17 points from a-q with associated sublevels, so the disclosure is fairly extensive.

To start with Liljedahl Group must disclose the accounting policy used to recognize actuarial gains and losses. The other disclosure can be shown in different tables:

- Total expense recognized in profit or loss, containing several sublevels such as interest cost and actuarial gains and losses (IAS 19, p.120A, g).
- Principal actuarial assumptions such as discount rates, expected rates of return on any plan assets for the periods presented in the financial statements and medical cost trend rates (IAS 19, p.120A, n). Also the effect of a one per cent increase and one per cent decrease in the assumed medical cost trend rates (IAS 19, p.120A, o).
- Reconciliation of opening and closing balances of the present value of the defined benefit obligation (IAS 19, p.120A, c).
- Reconciliation of opening and closing balances of the fair value of plan assets (IAS 19, p.120A, e).
- Total amount recognized in the statement of comprehensive income for actuarial gains and losses (IAS 19, p.120A, h).

### 4.2.5 IAS 36 – Impairment of Assets

RR 17 is more or less a translation of IAS 36 so the demands for when impairment is necessary or possible are the same. One aspect that differs in IAS 36 is that assets with indefinite useful life such as goodwill must be tested for impairment each year (IAS 36, p.10). Since goodwill cannot generate cash flows independently all the cash-flow generating units that the goodwill has been divided on must be tested. According to IAS 36 Liljedahl Group must disclose information concerning the amount of impairment losses and reversals recognized in profit or loss during the period and the line item of the statement of comprehensive income in which those impairment losses are included. This disclosure must be made for each class of assets (IAS 36, p.126).
4.2.6 IAS 38 – Intangible Assets

To fully comply with IAS 38 Liljedahl Group must disclose some extra information. Information regarding, if the useful lives are definite or indefinite (IAS 38, p.118) and also the carrying amount of assets with indefinite useful life and reasons supporting the assessment of an indefinite useful life. The factors that played a significant role in the determination that the asset had an indefinite useful life must be disclosed as well (IAS 38, p. 122). For Liljedahl Group such disclosure must be made concerning goodwill.

4.2.7 IFRS 3 – Business combinations

Since Liljedahl Group has not completed any business combinations during the year of 2011 and according to IFRS 1 it is not mandatory to apply IFRS 3 retroactively (IASB, IFRS 1, C1), this standard will not be applicable for Liljedahl Group.

To demonstrate what would be required from Liljedahl Group in order to comply with IFRS 3 in the future Liljedahl Groups latest acquisition will be examined, an acquisition that took place in 2010.

To fully comply with IFRS 3 there are some extra disclosure to be made, the aim of this disclosure is to help the user of the financial reports to be able to assess the effect the acquisition has on the financial statement (IASB, IFRS 3, B64). There must be a description about the acquired company and also the primary reasons for the business combination. The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class such as cash must be shown. The fair value of receivables and the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed must be disclosed. Also, a qualitative description of the factors that make up the goodwill recognized such as expected synergy effects (IASB, IFRS 3, B64).

4.2.8 IFRS 1 – First time adoption of IFRS

Since Liljedahl Group will be considered as a first time adopter if a transition to IFRS where to occur IAS 8 will not be applicable to Liljedahl Groups first financial statement in accordance with IFRS (IFRS 1, p.27). Liljedahl Group will have to disclose reconciliations of its equity reported under Swedish GAAP to its equity under IFRS in sufficient detail to enable users to understand the material adjustments (IFRS 1, p.24-25). Liljedahl Group must also explain how the transition to IFRS has affected their financial position, financial performance and cash flows.
4.2.9 Other standards causing changes

IAS 1 will result in some minor changes from Liljedahl Group, this since IFRS changed the preparation of the reports from 2009. The biggest change is how to present equity, and changes in equity must be divided between transactions related to the business and transactions related to the owners. This sectioning will also have an effect on the statement of income which is now called comprehensive income and contains both the regular income statement and other comprehensive income. In the comprehensive income the transactions affecting equity related to the business will be presented and the result obtained here will be merged with the result from income and form a comprehensive result that shows what effect the whole business has on equity (Marton et al., 2010). Items to include in other comprehensive income are for example actuarial gains and losses (IAS 1, p7).

IAS 17 Leases may have an impact on Liljedahl Groups annual report, since Liljedahl Groups current accounting standard about leasing BFNAR 2000:4 states that all leases can be considered as operating leases. Liljedahl Group needs to take this in to consideration and review their leasing contracts in order to determine whether to classify the contracts as financial or operating leases. A leasing contract is classified as financial if the benefits and risks associated with the object are transferred from the lessor to the lessee (IASB, IAS 17, p.8).

4.3 How does a transition in to full IFRS instead of K3 affect the amount of work required by non-listed group entities and what are the benefits?

4.3.1 Interview Dan Phillips

Phillips believes that IFRS brings both advantages and disadvantages in comparison with K3. IFRS develops fast, at least in comparison with IFRS for SMEs and it requires a lot for entities to stay updated. The future will show how frequently K3 will be updated; it might follow IFRS for SMEs development or follow an individual plan. The biggest upside when applying IFRS is that a common accounting language is used and foreign subsidiaries can seek guidance outside the internal accounting guidelines. Phillips also believes that if a non-listed group company has the ambition to be listed in the future it is always an advantage to adopt IFRS early and have some history with IFRS. The inter-
nal accounting and business competence will have a big effect on the amount of work required according to Phillips. Phillips is also of the impression that a lot of non-listed entities will see K3 as an opportunity to investigate what a transition in to IFRS would require from their company.

Phillips continues saying that financial instruments will cause a problem for all companies and from an accounting principles point of view IAS 19 and especially pensions will cause the biggest change. Even though it is allowed by K3 to follow IAS 19 Phillips believes that it will be unusual in practice to do so.

Since K3 is based partly on IFRS for SMEs which is a simplification of full IFRS Phillips confirms the statement that the biggest change will be caused by the extensive disclosure requirements in full IFRS and not the accounting principles, at least for group companies. Impairment of intangible assets will be one of the standards causing the biggest changes in form of extra disclosure.

4.3.2 Interview Liljedahl Group

Both the CFO and Group Chief Accountant of Liljedahl Group reaches the same conclusion considering were they believe the biggest changes will occur if a transition in to IFRS were to happen. The respondents agree to that the disclosures will increase significantly and that their current consolidated report will be twice as comprehensive with IFRS. Respondents are of the impression that financial instruments will demand a lot of extra work and that hedge accounting in IAS 39 will be very extensive and that the costs of implement it will exceed the gains. The Group Chief Accountant believes that there will be some minor changes considering the accounting principles and the CFO adds that the transition will impose some effects on the result partly due to impairment on goodwill instead of yearly depreciations. Both the respondents believe that most of the extra information needed to fulfill the IFRS requirements is already available in the group but a bit of complementary information must be gathered. The CFO says that the organization has very good tools to collect the extra information needed and is convinced that Liljedahl Group has the competence to manage a transition in to IFRS.

The respondents believe that IFRS will carry advantages in form in comparison between other companies in Europe both listed and non-listed, they are of the impression that some stakeholders just compares numbers in different reports without knowing that the financial statement has been compiled with different accounting standards. The respondents also believe that IFRS will be beneficial if the financing of the organization will be more focused
on international stakeholders and also that the cooperation with foreign auditors will be facilitated.

### 4.4 What is the level of difficulty to obtain the additional information?

The interview with the Group Chief accountant and the CFO at Liljedahl Group yield the result that the majority of the information needed in a transition to IFRS is attainable and already existing inside the organization.

The disclosure requirements of IFRS concerning, taxes, intangible assets, impairment, business combinations and leasing is thought to be already existing for internal use or easily accessible when needed. Although the information is existing to a large extent or can be easily accessed it will impose some extra work for Liljedahl Group concerning this areas since the information is not presented in their present annual financial statement. The test for impairment of goodwill each year will cause changes in accordance to the current accounting standards but it is possible to perform the impairment test with current resources, and the impairment process for intangible assets is accounted for only a small part of the Group. Liljedahl Group already takes impairment into consideration when it comes to their subsidiaries. The requirement that all leasing contract cannot any longer be classified as operational leasing contracts will impose a change, Liljedahl Group need to have an inventory of existing contracts and in the future the development of a procedure to keep track of all the leasing contracts might be developed.

The areas that will require new information to be produced and to be collected concerns financial instruments and employee benefits, particularly defined benefit plans. Liljedahl Group believes that the categorization required by IAS 39 is not about to cause any major problems since the information needed is available and can be collected from third parties such as banks. If there are any information that cannot be collected from third parties and need to be produced the mechanisms needed already exist inside the group. The same goes for the valuation process, since the financial instruments that are to be valued at fair value in Liljedahl Groups case consists of listed assets and liabilities whose value is easily accessible through market prices.

According to Liljedahl Group the biggest challenge with financial instruments relates to hedge accounting. Liljedahl Group is unsure if the benefits of hedge accounting will out-
weigh the drawbacks but if hedge accounting is to be applied information that does not currently exist need to be produced. Liljedahl Group is of the impression that at their current status it would not be possible to use hedge accounting and the biggest obstacle relates to IFRS requirements to prove the hedge to be effective. Furthermore Liljedahl Group says that hedge accounting would lead to that a more fair view of the group is shown but that the cost is probably too big.

When it comes to defined benefit plans, information must be collected from third parties since the information needed is not attainable inside the group. Hence, external parties need to participate in order to fulfill the disclosure requirements connected to defined benefit plans for example disclosures concerning actuarial assumptions.
### 5 Analysis

In the analysis a comparison between chapter 2 Review of Literature and chapter 4 Empirical Findings will be undertaken. This comparison is undertaken in order to be able to draw some conclusions regarding the IFRS transition in theory and practice. For simplicity the structure in the analysis will be the same as the previous chapter.

#### 5.1 How much additional information must companies disclose based on their current consolidated report?

From previous studies by Hoogendorn (2006) and Jermakowicz & Gornik-Tomaszewskia (2006) concerning the transition to IFRS a clear pattern has been noticed and there are some standards considered to impose more work and more disclosure to be made in comparison to other standards, such as IAS 36, IAS 12 and IAS 38. By looking through an IFRS disclosure checklist with Liljedahls current Group Annual Report as a starting point the standards found to cause extra information to be added were in accordance with previous studies. It was also found that almost any other standard did require some form of extra disclosure, even though the information needed to disclose is not that extensive or complex as for the standards mentioned above. IAS 1 will cause some changes due to the fact that the presentation of the financial statements changed in 2009 and in Liljedahls case this would have an effect on how to present their equity. IAS 17 will require Liljedahl to look over their leasing contracts in order to determine whether they need to be classified as operational or financial leasing contracts, according to Larson and Street (2004) previous IFRS adopters have experienced differences between IAS 17 and domestic GAAP and the standard have also been seen as complicated.

Since IAS 39 does not have any Swedish equivalent this standard were expected to require more information to be added for Liljedahl Group. This was also the case, mainly due to the fact that IAS 39 requires that financial instruments are presented at fair value and when fair value is used it is important to disclose a lot of information in order to give the users of the financial statement a fair view of the company. IAS 39 also requires that different categories of financial assets and liabilities are shown, either in the balance sheet or disclosed in notes, categories that are not required by Swedish standards. This is in line with a study...
undertaken by Hjelmström and Schuster (2011) were Swedish companies found IAS 39 to be complex and that it causes a lot of extra work. Fair value on financial instrument has not been used before and due to that it will impose differences in both the income statement and the in the balance sheet. This since the changes in fair value must be reflected somewhere.

From the disclosure checklist it was noticeable that the disclosure about IAS 19 and defined benefit plans would require extra information to be added, this is in line with previous studied undertaken by Jermakowicz & Gornik-Tomaszewskia (2006) and also Hoogendorn (2006). Disclosure concerning the actuarial assumptions that have to be made and also the value of the defined benefit plan in the start and end of each period, the work with actuarial assumptions is a complex task as has been shown in previous studies by Morris (2010).

5.2 How does a transition in to full IFRS instead of K3 affect the amount of work required by non-listed group entities and what are the benefits?

When the transition in to IFRS became mandatory for listed companies in 2005 the aim was partly to increase the comparability between companies, both through time for the same company and also between different companies. This aim was never questioned but as a study by Hjelmström and Schuster (2011) shows many Swedish companies was skeptical to the transition because the amount of work and the cost related to it would exceed the benefits of using a common set of accounting standards.

5.2.1 Dan Phillips

IFRS will require more work from the companies than the K3 will and especially with the disclosures. In line with Jermakowicz & Gornik-Tomaszewskia (2006) Phillips believes that the main advantage is the fact that with IFRS a common accounting language is used and this will not only help to increase the comparability but also help subsidiaries in different countries to seek guidance outside the internal accounting guidelines. Furthermore Phillips agrees with previous studies such as Larson and Street (2004) and Hjelmström and Schuster (2011) that IAS 39 Financial Instruments will cause problems partly due to the lack of a Swedish equivalent, and also that in an accounting point of view IAS 19 will cause the big-
gest change partly because the calculations connected to defined benefit plans are complex and that fact is in accordance with Morais (2010).

Phillips also brings up the question about K3:s rate of development, IFRS are seen to have a fairly high rate of development which requires entities to put in some effort in order to stay up to date. The rate of development of K3 is at the time of writing unknown but it is not likely that K3 will follow the development of IFRS. K3 might follow the rate of development for IFRS for SMEs or establish its own rate.

Phillips is also of the opinion that many Swedish group entities will see the K3-regulation as an opportunity to at least investigate if a transition in to IFRS would be beneficial.

5.2.2 Liljedahl Group

In line with the study of Jermakowicz & Gornik-Tomaszewskia (2006) Liljedahl Group is well aware of the fact that the biggest difference between current Swedish accounting standards, K3 and IFRS are the extensive disclosure requirements by IFRS. Liljedahl Group does believe that most of the extra information required by IFRS is already available in the Group and if not, the tools for attaining that information are established in the Group for most of the areas. Liljedahl Group is also certain that the right competence in the accounting area is present inside the Group and from the interview with Dan Phillips it became clear that one of the main aspects of how well companies will handle the IFRS transition is dependent on the internal competence.

Liljedahl Group believes that the biggest advantage of using IFRS is the comparability, between both listed and non-listed companies and it will also be beneficial for Liljedahl Group if the amount of foreign investors were to increase. The increasing comparability was one of the main goals of IFRS and has been confirmed by several studies such as Jermakowicz & Gornik-Tomaszewskia (2006) and Brown (2011). Liljedahl Group believes that this increase in comparability will improve the cooperation with foreign auditors.

What has also been shown to be true by Daske & Gebhardt (2006) is the increase in accounting quality when using IFRS, an aspect that Liljedahl Group had not reflected over.

Despite these positive aspects that are believed to be achieved by IFRS and that a lot of the extra disclosure information is already available the Group Chief Accounting Manager is skeptic to the transition to IFRS and believes that it will be sufficient to show that the financial statements are compiled with K3 which is based on IFRS for SMEs, and that the disclosure needed under IFRS will bring a cost that cannot exceed the benefits of using
IFRS. This skepticism that cost of compliance with IFRS is too high have been confirmed by other Swedish companies according to Hjelmström and Schuster (2011).

5.3 What is the level of difficulty to obtain the additional information needed?

This section will present how hard Liljedahl Group experiences the level of difficulty to obtain the information they need to present in order to compile with IFRS. This section has its starting point out of the result of the empirical findings and Liljedahl Group’s reactions to that information.

Liljedahl Group believes that most of the information they need to disclose in accordance with IFRS already exists in the Group, although they are aware of that IFRS will add some new areas of disclosure that are not currently presented in their Annual Group Report. This is in accordance with the review of literature and Jermakowicz & Gornik-Tomaszewska (2006) found that out of 74 companies studied 40 of them needed to add at least one new area of disclosure.

This study have shown that for the areas of taxes, intangible assets, business combinations and impairment of assets more disclosure is required for Liljedahl Group to comply with IFRS. Liljedahl Group states that this information is already available for internal use and would not cause any extra work if the information were to be disclosed in their annual report.

In line with Hjelmström and Schuster (2011) the area concerning impairment of assets will have an effect on the statement of income since goodwill has to be tested for impairment each year instead of yearly depreciations. Liljedahl Group is positive to this change in the aspect of that it increases the comparability with other entities but they are at bit skeptical to impairment of goodwill in general. According to Hjelmström and Schuster (2011) the impairment of assets have not only generated more work in terms of extra disclosure but entities have also felt that the fact that so much information need to be disclosed in order to show that necessary impairment have been recognized may hurt them in a competitive point of view. Liljedahl Group does not experience that impairment of assets would hurt their competitiveness since assets subject to the requirement of impairment represent only a minor part of the assets of a whole.
Liljedahl Group says that leasing will account for some areas of new disclosure due to the fact that not all leasing contracts can be seen as operational any longer, although disclosure related to leasing is not seen as problematic. According to Liljedahl Group the standards that can incur some difficulties are IAS 39 and IAS 19.

IAS 39 will impose new areas of disclosure for Liljedahl Group since financial instruments are not valued at fair value under Swedish accounting standards. Liljedahl Group does not experience any difficulties in the recognition process of financial instruments at fair value nor the valuation process, this since most of their instruments are traded at a regulated market and the information such be able to be collected from third parties such as banks. Even though Liljedahl Group does not experience difficulties in order to obtain this information it will require extra work from them and this would confirm the study by Caims (2004) where Caims states that the recognition of all derivatives at fair value on the balance sheet will be the most substantial effect of adopting IFRS.

Liljedahl Group believes that the biggest challenge with IFRS would be hedge accounting and state that this area would require them to produce new information that they currently do not possess. Liljedahl Group believe that the hardest part would be to fulfill the requirements concerning efficiency and at the time of writing Liljedahl Group is not able to provide the information needed to apply hedge accounting. Since hedge accounting is not mandatory this area will most likely not be used by Liljedahl Group since they believe that the cost will exceed the benefits, an opinion that they share with other entities (Glaum and Klöcker, 2011).

IAS 19 is another standard that Liljedahl Group perceives as complex and will require assistance from external parties in order to gain access to sufficient information and also be able to compute the calculations needed. The specific part of IAS 19 that is seen as complex is defined benefit plans and this is no surprise and according to Morais (2010) defined benefit plans and actuarial assumptions is the major reason why IAS 19 is seen as complex.

Liljedahl Group believes that most of the information needed to fulfill the requirements of IFRS is available inside the group and if that is not the case the information can be easily accessed by external parties. This perception might be an underestimate of how complex and comprehensive IFRS really is, and if that is the case it would be in line with the result of the study by Hoogendorn (2006). If Liljedahl Group underestimates the transition or not can almost only be shown if a transition are to happen in the future.
6 Conclusion

Chapter 6 will conclude this study by summarizing the output from the analysis. Research questions will be answered, first the sub queries will answered followed by the main issue. Recommendations for further research and the reflections of the author will also be presented in this chapter. The conclusion chapter will start with a short recap of the study.

This study investigates the opportunity non-listed group entities faces concerning a transition to K3 or IFRS in the perspective of Liljedahl Group, and this study may serve as a benchmark for other non-listed group entities. Since the new K-regulation forces entities to change accounting standards no matter what, this situation is believed to been seen as an opportunity for non-listed group companies to investigate if IFRS could be more beneficial than K3, a belief that was confirmed in the study.

6.1 How much additional information must Group companies disclose based on their current Group Annual Report?

From the findings one can conclude that almost every standard in IFRS would require more comprehensive disclosure compared to a Group Annual Report under BFNs general recommendations and RR, and Liljedahl Group is no exception.

Some standards require more extensive disclosure than others and depending on what industry an entity is operating in some standards will have a higher impact than others. In Liljedahl Groups case IAS 39 and IAS 19 will be the standards that require most work in order to fulfill the disclosure requirements. IAS 39 since there are currently no equivalent standard under the Swedish GAAP, and in order to use fair value under IFRS there are high requirements to assure that the appropriate level of relevance and reliability is obtained, so that the financial statements are of use for stakeholders. IAS 19 will cause extra information to be disclosed for Liljedahl Group when it comes to defined benefit plans and the calculations for the same area will require Liljedahl Group to engage external experts to assist.
6.2 What is the level of difficulty to obtain the additional information?

After the interview with Liljedahl Group the author reaches the conclusion that Liljedahl Group are of the impressions that most of the vital information that is needed to comply with the disclosure requirements of IFRS already exists inside the company. Or can be easily accessed with the internal tools and mechanisms at hand. Some disclosure that is required under IFRS is already produced by Liljedahl Group for internal use. For example, Liljedahl Group already considers impairment on goodwill in order to keep track of their subsidiaries. Liljedahl Group is aware of the fact that many areas of disclosure will be extended but they are of the impression that the only standards brought up in this paper that will require new areas of disclosure are IAS 39, IAS 17 and IAS 19. Liljedahl Group is also of the impression that hedge accounting under IAS 39 will be too costly and will therefore not be applied even though it would show a more fair view of the financial statement. The area that would require most work for Liljedahl Group is the area considering defined benefit plans since the information needed is not available nor can be generated inside the group, hence the information need to be collected from external parties. Leasing in IAS 17 will require Liljedahl Group to look through their existing contracts to see whether they can be classified as operational or financial, Liljedahl Group feels that they also need to develop some kind of procedure in order to keep track of their leasing contracts in the future.

6.3 How does a transition in to full IFRS instead of K3 affect the amount of work required by non-listed group entities and what are the benefits?

Both Liljedahl Group and Dan Phillips believe that the main advantage with IFRS is the comparability the increase in comparability will be beneficial for Liljedahl Group in several ways. It will help Liljedahl Group to increase investments from foreign investors and it will also be a benefit when working with foreign auditors when the financial statements are to be audited in the subsidiaries outside Sweden. It has also been shown to be true that IFRS increase the quality of accounting which will lead to that a truer and fairer view of Liljedahl Groups financial statement will be shown which is once again beneficial out of the investor aspect.
IFRS is most likely to have a higher rate of development than K3, this will require Liljedahl Group to put more effort in to stay updated, this can be seen as both positive and negative since it enables Liljedahl Group to always be in the cutting edge but on the other hand it will demand more resources than under K3.

Even though Liljedahl Group believes that most of the disclosure information is available inside the Group they are skeptical that the positive aspects with IFRS will exceeds its cost and due to Liljedahl Groups financing structure the comprehensive disclosure of IFRS might not be necessary to gain the investments that they are out to get. The Group Chief Accountant believes that it will be sufficient for Liljedahl Group to use K3 since the framework is partly developed out of IFRS for SMEs and by disclosing this information foreign investors will get an insight of the quality of the accounting standards.

To conclude, the major difference between IFRS and K3 is the disclosure requirements and the aspect that will have the most vital effect on how well Liljedahl Group will succeed in a potential transition in to IFRS is the internal knowledge and tools available. What has also been shown to be true is that entities that will benefit most out of IFRS are companies that thinking about being listed or is dependent on foreign investors. If this is not the case IFRS might require that too much information is produced by the company in comparison of what the company would gain from revealing and producing that info.

6.4 Reflections of the author

This study explores the choice non-listed group companies’ face whether to adopt the new K3-regualation or IFRS. To better understand the situation for non-listed group companies one single group where investigated, Liljedahl Group.

I believe that it was the right choice to explore one companies’ choice whether to adopt K3 or IFRS since it provided a deeper understanding of the problems at hand and the scale of the changes that needed to be made to adopt IFRS. The study did not provide any major surprises concerning which standards that would cause an extra effort for Liljedahl Group and as previous studies has confirmed financial instruments and employee benefits will incur the biggest differences.

The study showed something that I find interesting and that is the fact that non-listed group companies sees the K3-regualtion as an opportunity to at least investigate a transition to IFRS, this was confirmed by both Liljedahl Group and Ernst & Young’s IFRS ex-
pert Dan Phillips, and I am quite sure that several non-listed group companies will hire external consultants to look into IFRS. I am also quite sure that the companies that find it most interesting to adopt IFRS instead of K3 are those companies that have plans to become listed in the future or are companies that are fairly dependent on foreign capital. Since Liljedahl Group neither have plans to become listed nor are heavily dependent on foreign capital my advice would be to adopt K3. This since K3 is partly derived from IFRS for SMEs which is a set of standards that are internationally known and also due to the fact that the extensive disclosure requirements of IFRS would come at a higher cost than benefit for Liljedahl Group.

I am also of the impression that Liljedahl Group underestimates the effects of IFRS and that there is a lot of information that needs to be gathered that is not currently available inside the company. I am of this opinion because it is a very complex task to explain how IFRS will affect a company. And that a proper investigation by a professional consultant with expertise in the IFRS area needs to be undertaken before it is possible to explain how IFRS will impact on a company.

### 6.5 Further Research

There are several areas connected to the questions in this thesis that could be further investigated. As mentioned above when using an explorative case study it helps form ideas and hypothesis for other studies and as this study focuses on a specific company and specific industry it might be interesting to see what IFRS instead of K3 would mean for an entity that is for example financed by foreign capital to a large extent. It would be possible to explore if the amount of foreign capital would increase in companies choosing IFRS instead of K3 and also look deeper into the thoughts of foreign investors to see whether they think K3 is comparable enough with international standards or if IFRS should be used.

Another possible way to align the research would be to focus more on a particular area such as financial instruments or employee benefits, preferably out of a company’s point of view that uses defined benefit plans and could benefit from using hedge accounting since these areas yield a great deal of complexity.

One could also choose a different angle and look at it from the Big four auditing companies point of view, and look at what it would mean for them if group companies chose IFRS instead of K3 on a voluntarily basis.
When K3 have been applied for a full year it would be interesting to compare non-listed groups that did choose IFRS instead of K3. And compare how the two set of standards have affected the two companies in different aspects, In terms of profitability, auditing costs and the quality of the information in the financial reports.
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Appendix 1

Interview with Liljedahl Group

1. According to you what are the advantages respectively disadvantages for non-listed groups that would adopt IFRS instead of K3

2. Do you believe that a transition to IFRS instead of K3 would impose a lot of extra work for Liljedahl Group?

3. What are your expectations on IFRS?

4. Do you believe that Liljedahl Groups consolidated report would look different if it were compiled with IFRS instead of domestic GAAP?
   a. If the answer is yes: What would be the biggest differences?
   b. If the answer is no: Why not?
Appendix 2

Interview with Dan Phillips

1. According to you what are the advantages respectively disadvantages for non-listed groups that would adopt IFRS instead of K3

2. Are you of the opinion that a transition to IFRS would impose more work for non-listed groups that are currently under RR and BFN?
   a. If the answer is yes: Which specific areas would demand most effort?
   b. If the answer is no: Why not?

3. If a transition to IFRS instead of K3 were to occur, what would be the major differences?

4. Since K3 is partly derived from IFRS for SMEs which is a simplification of full IFRS, is it correct to say that:
   a. The major differences between K3 and full IFRS are not the accounting principles but the disclosure requirements?
Appendix 3

Interview with Liljedahl Group

Financial Instruments

1. How do you believe the division of financial instrument will affect Liljedahl Group? The following categories is required:
   i. Financial assets at fair value through profit or loss
   ii. Held-to-maturity investments
   iii. Loans and receivables
   iv. Available-for-sale financial assets
   v. Financial liabilities at fair value through profit or loss
   vi. Financial liabilities measured at amortised cost

2. How will the disclosure requirements concerning income, expense and gains or losses connected to each category of financial instruments affect Liljedahl Group?

3. Do you see any problems in the process of determining fair value and amortised cost on financial instruments?

4. If hedge accounting are to be applied, how do you believe the extensive requirements of documentation will affect Liljedahl Group with respect to:
   i. How to measure the effectiveness of the hedge?
   ii. The nature of the risks being hedged

5. How will disclosure concerning methods, techniques and assumptions used to determine fair value affect Liljedahl Group?

Income taxes

6. How will the disclosure requirement that a specification of deferred tax assets and tax liabilities is needed affect Liljedahl Group?

7. How will the disclosure concerning the connection between tax expense or income of the period related to the calculation of the tax rate affect Liljedahl Group?

8. Do you find any difficulties in reporting the different tax rates from the countries Liljedahl Group have subsidiaries in?
Employee benefits

9. Does Liljedahl Group have any plan assets connected to their defined benefit plans?

10. How will the disclosure requirements concerning the most important actuarial assumptions such as discount rate, expected rate of salary increases and medical cost trend rates affect Liljedahl Group?

11. How will the following disclosures affect Liljedahl Group?
   i. Actuarial gains and losses
   ii. Expected rates of return on plan assets
   iii. Fair value and expenses on plan assets
   iv. Expected salary increase for participants of the defined benefit plan
   v. Changes in medical costs

Impairment of assets

12. How will the requirement that goodwill need to be tested for impairment annually affect Liljedahl Group?

13. How will the requirement concerning that the amount of impairment losses recognized and reversed need to be disclosed affect Liljedahl Group?

Intangible assets

14. How will the disclosure concerning if intangible assets have a definite or indefinite lifetime affect Liljedahl Group?

15. How will Liljedahl Group be affected by the requirement that factors used to determine that an intangible asset has a useful life that is indefinite and the value of the asset must be disclosed?

Business Combinations

16. How will the following disclosures affect Liljedahl Group?
   i. Description of the acquiree
   ii. The primary reasons for the business combination
   iii. The acquisition date fair value of the total consideration transferred
   iv. A qualitative description of the factors that make up the goodwill recognized
   v. Acquisition-date fair value of each major class of consideration, such as: assets acquired and liabilities assumed

Leasing

17. How will Liljedahl Group be affected of the regulation that all leasing contracts can no longer be classified as operational?