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Handelshögskolans Civilekonomprogram
Bachelor Thesis, ICU2006:42

True and Fair View – The Substitute of “*God Redovisnings*sed”?

What has happened to the accounting of the companies
that have implemented IFRS in Sweden?

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Business Administration
Financial Reporting and Analysis

Spring Term 2006

Abstract

**Bachelor Thesis in Business Administration/Financial Reporting and Analysis,
School of Business, Economics and Law at Göteborg University, Spring 2006.**

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Title: True and Fair View – The Substitute of “*God redovisningssed*¹”? What has happened to the accounting of the companies that have implemented IFRS in Sweden?

Background and Problem: The EU has recently adopted a new regulation that describes the application of common international accounting standards produced by the IASB, which is compulsory within the EU. *God redovisningssed* is a concept that describes practice in Sweden. The enterprises now have to adapt to the EU’s concept, true and fair view. The last year, 2005, has been the first year for companies to use the new accounting standards. Has the IASB’s true and fair view replaced the Swedish concept *god redovisningssed* or is *god redovisningssed* still used as a concept in accounting practice?

Aim of the Study: The aim of the study is to examine whether *god redovisningssed* is still having an impact on accounting in the consolidated public companies or if true and fair view has been fully implemented.

Problem Delimitations: The study is limited to discuss the general aspects and definitions of accounting laws and recommendations. Furthermore, the empirical findings are focused on the biggest companies in Sweden.

Method: A hermeneutical perspective with a focus on a qualitative method permeates the thesis. Scientific books and scientific articles as well as interviews with six persons who are working closely to the research area, constitute the findings of the study.

Analysis and Conclusion: The findings of the thesis state that the concept *god redovisningssed* is not used in accounting practice in the public consolidated accounts in Sweden today, but there are some aspects stressed by the interviewees, which show a possible impact of *god redovisningssed* on today’s accounting. As true and fair view takes both the details, as well as the overall picture into consideration, it is a wider concept than *god redovisningssed*. In conclusion, true and fair view has not been thoroughly used or discussed among the users. Thus, true and fair view has replaced *god redovisningssed* in theory, but it has not filled the void in practice.

Research Suggestions: According to some of the interviewees, clear differences in the implementation of IFRS can be seen between medium-sized companies and big companies. Therefore, it could be interesting to research how these smaller companies have succeeded with the implementation of IFRS and its true and fair view.

¹ *Good Accounting Practice*, further on referred to as *god redovisningssed*.

Acknowledgement

The authors would like to offer our gratitude to the interviewees, for their participation in the study as well as for interesting answers and discussions. The interviews have founded a good base for the thesis.

We would also like to thank our tutor, Gunnar Rimmel for his support, suggestions and helpful discussions during our work with the thesis.

Gothenburg, May 29, 2006

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Abbreviations

BFN	Bokföringsnämnden, (The Accounting Standards Board)
EC	The European Council
EU	The European Union
FAR	Föreningen för revisionsbyråbranschen, (The Swedish Institute for Authorised Public Accountants)
FASB	The Financial Accounting Standards Board
IAS	International Accounting Standards
IASB	The International Accounting Standards Board
IASC	The International Accounting Standards Committee
IFRS	International Financial Reporting Standards
RR	Redovisningsrådet, (The Financial Reporting Council)
SOX	Sarbanes Oxley Act
US GAAP	Generally Accepted Accounting Principles in the US
ÅRL	Årsredovisningslagen (The accounting Act)

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1. Introduction

This chapter will describe the background to the thesis by presenting some historical facts and why the subject is highly topical. The problem will be introduced in a problem discussion, which is followed by a definition of the problem. Further, the aim of the study will be described and some delimitations and assumptions in the thesis will be presented.

1.1 Background

In the last decades, the world has been moving towards a more integrated and internationalised society. The international trade has increased dramatically, since many companies operate in numerous different countries in order to benefit the world market. The development of multinational enterprises as participants in several capital markets gives a demand for common financial rules in the different markets. Especially within business accounting and auditing, investors have a strong request for common valuation of the companies.

For more than thirty years the European Union (the EU) has actively worked with financial reporting and in particular with a harmonisation of accounting principles within the member states (Flower, 2002). In July 2002, the European Parliament and the European Council adopted the regulation (EC) no. 1606/2002 that describes the application of international accounting standards, which is compulsory in all countries within the EU. According to this application the aim is to:

...ensure a high degree of transparency and comparability of financial statements, and hence, an efficient functioning of the Community Capital Market and of the Internal Market. ((EC) no. 1606/2002:3)

The application comprises the consolidated accounts of publically traded companies in the EU. These companies are obliged to follow it for each financial year starting on or after the 1st of January 2005 ((EC) no. 1606/2002).

The standards referred to in the regulation (EC) no. 1606/2002 are developed by the International Accounting Standards Board (IASB). This is a private, non profit and international organisation that primarily strives for developing high quality and well understandable global accounting standards in order to help actors in the world's capital markets make economic decisions (Flower, 2002:249). These accounting standards are called International Financial Reporting Standards (IFRS), and they must be approved by the European Commission in order to be valid for the member states. The idea that permeates these accounting principles is to report according to a *true and fair view*. This fundamental expression comes from Great Britain and is a central concept within the Anglo-Saxon accounting tradition. In the Anglo-Saxon Accounting System the stock market has always been an important user of the financial report, which has led to a modest influence of taxation on financial reporting (Smith, 2006). True and fair view is a broad and general concept that should lead the accountant to report as close to reality as possible. However, it is not clear how to interpret this famous notion.

In Sweden there is a history of another form of accounting system, the Continental Accounting System, where a close link between accounting and taxation is essential. Within this tradition, legal aspects are very important in order to produce correct financial information. The basic concept of the system is that the accountants should report according to prudence accounting since the aim of the financial report always has been to please the creditors (Blake, Åkerfeldt, Fortes & Gowthorpe, 1997). As a complement to the Swedish accounting rules, the concept *god redovisningssed*² has been developed. *God redovisningssed* should be followed due to Swedish law and the Swedish Accounting Standards Board (Bokföringsnämnden, BFN) is responsible for the development of the concept. Moreover, *god redovisningssed* consists of laws, recommendations and practice and according to Gustafson (2006) there are several political, economical and cultural operators that influence practice, which impacts *god redovisningssed*. In addition Gustafson (2006) maintains that the Swedish companies' practical solutions of accounting problems have also affected the development of this concept. As a result of the complexity of *god redovisningssed* it is hard to fully determine its significance.

The standards of the IASB are also compulsory for Swedish consolidated accounts of publically traded companies from the beginning of 2005. Consequently, Swedish multinational enterprises, like Volvo Group and SKF Group³, have been obliged to adapt to the standards of the IASB. As a result, the transformation from Swedish accounting rules to the international standards of the IASB has been highly topical during the last years.

1.2 Problem Discussion

The transformation to IFRS in Sweden has created many questions about the interpretation and valuation of how to produce accounting. Furthermore, this conversion is a huge and fundamental change of accounting principles, as the Continental Accounting System and the Anglo-Saxon Accounting System are totally different in all basic perspectives (Porcano & Tran, 1998). Moreover, the prudent accounting, which satisfies creditors, is no longer of current interest when the standards of the IASB claim that accounting should present true and fair values useful for shareholders. As *god redovisningssed* is a Swedish phenomenon, the enterprises now have to adapt to true and fair view. Consequently, theoretically *god redovisningssed* should no longer be valid for consolidated public companies.

But how are companies acting in practice? The tradition was to follow *god redovisningssed*, which has been built up during many years in Sweden and where the leading Swedish companies have played a fundamental role when affecting practice and *god redovisningssed*. Today, there is no practice and tradition to follow as the new standards and frameworks of the IASB have newly been developed. Furthermore, the standards of the IASB are much more detailed and specified than Swedish accounting rules, thus the space for different accounting interpretations has decreased (Smith, 2006).

² *Good Accounting Practice*, further on referred to as *god redovisningssed*.

³ Further on referred to as Volvo and SKF.

During the spring of 2006 the first annual financial reports have been produced according to the new standards of the IASB. The last year, 2005, has been the first year for companies to interpret and fully use these new accounting standards in order to produce a correct and legal financial report. Has it been easy to convert to true and fair view or is *god redovisningssed* still a concept used in practice? As mentioned before, the transformation involves a lot of different alterations in valuations and interpretations, which the companies have had to put great effort in.

1.3 Problem Definition

As described in the problem discussion, the legal accounting rules for consolidated accounts of publically traded companies in Sweden has newly changed from the traditional Swedish accounting rules and *god redovisningssed* to IFRS and its true and fair view. This leads to the problem definition, which is defined as follows:

Has the IASB’s true and fair view replaced the Swedish concept god redovisningssed?

In order to answer the problem definition, the thesis focuses on three questions that emphasise the different aspects of the problem.

- *What is the Swedish practice today concerning true and fair view?*
- *Is god redovisningssed still used as a concept in accounting practice?*
- *Is true and fair view a good substitute to god redovisningssed according to auditors and companies?*

1.4 Aim of Study

2006 is the first year in which annual financial reports have been produced according to the new standards of the IASB. Therefore it is highly relevant to investigate how enterprises have adapted to the new accounting rules. Consequently, the aim of this study is to examine whether *god redovisningssed* is still having an impact on accounting in these companies or if true and fair view has been fully implemented.

1.5 Delimitations and Assumptions

The study is delimited to discuss the general aspects and definitions of the Swedish accounting system and *god redovisningssed* as well as of the newly implemented standards of the IASB and its true and fair view. Thus, the aim of the study has not been to investigate and describe the specific changes in each accounting recommendation.

As the standards of the IASB are only compulsory to consolidated accounts of public companies in the EU, this thesis focuses on examining these companies in Sweden.

The empirical research focuses on companies in Sweden and more specifically on four companies within the auditing branch as well as two leading public company groups. The auditing companies chosen are considered to be the four biggest and

leading within the Swedish auditing branch, consequently they are regarded to give a professional and exhaustive foundation to the study. Volvo and SKF were chosen firstly, since they are representatives of companies that earlier have affected *god redovisningssed* through their practical solutions of accounting problems, and secondly because their headquarters are situated in Gothenburg.

The translation of true and fair view in Swedish is *rättvisande bild* (a right-looking picture). Several theorists like Aisbitt and Nobes (2001) question whether the translation equalises the original concept⁴. This thesis aims to describe the IASB’s true and fair view, as well as to investigate how the IASB’s true and fair view has had an impact on Swedish accounting. Therefore, an assumption of the thesis is that the Swedish translation *rättvisande bild* equalises true and fair view.

⁴ Further discussed in section 3.4.2.

2. Method

The method chapter presents how the gathering of theoretical sources has proceeded, the selection, the realisation and the compilation of the interviews. The reliability and the validity question the sources and the chosen methods throughout this chapter.

2.1 Research Design

The aim of this study is to examine whether *god redovisningssed* is still having an impact on accounting in practice or if true and fair view has been fully implemented since the transformation to IFRS. As this thesis studies, interprets, and tries to understand accounting systems, techniques and procedures used in practice, a hermeneutical perspective prevails. The goal of a hermeneutical research is to interpret and understand the research area, to take part of the examined phenomenon and to interpret it from an overall perspective (Lundahl & Skärvad, 1992). Furthermore, the pre-understanding of the researcher, the knowledge and personal experiences of the researcher, is seen as an asset and not as an obstacle in the work of interpreting and understanding the research object (Patel & Davidson, 1994:26). Patel and Davidson (1994) see this research method as a hermeneutical spiral; text, interpretation, comprehension, new text production, new interpretation and new comprehension are parts of a constant developing overall picture of the research. This thesis aims to benefit from the pre-understanding and the hermeneutical spiral of the researchers. In the comprehension and interpretation of accounting systems and accounting practice, the knowledge of the researchers will be used as well as the appearance of new research perspectives, which have not been developed before.

There are different methods when doing research in social science. Holme and Solvang (1997) describe the qualitative and quantitative methods as two different approaches. Distinguishing for the qualitative research are, the attempts to incorporate and visualise the qualitative link constituted by the researcher, which is in accordance with the hermeneutical perspective (Widerberg, 2002). The most important difference between the quantitative and qualitative methods is how numbers and statistics influence the research. In the quantitative method, statistical analyses are performed through the use of numerical information. It is a well standardised and formalised method that sometimes can create too generalised information. In contrast, the qualitative approach does barely formalise the information of the study. A methodological dilemma can be seen as the qualitative approach creates high validity and the quantitative approach creates high reliability. The qualitative method aims to create a deeper understanding of the research area as well as to describe the overall picture of the context of the thesis (Holme & Solvang, 1997). As the purpose of the study is to get a deeper knowledge about the usage of *god redovisningssed* after the implementation of IFRS, the qualitative method is a good and appropriate approach. Thus, the aim is not to do a generalised research of the problem area.

The qualitative research is distinguished by a physical contact with the units of sources, for instance the interviewees. On the one hand, it is very important to have the physical contact as it creates trust and understanding. On the other hand, the close contact between the researcher and the interviewee can create pre-determined expectations, the interviewee answers as he/she thinks it is expected by the researcher (Holme & Solvang, 1997). The problem has efficiently been avoided as the research

has been performed by students, who are not regarded to have as much knowledge as for example professors. This fact contributes normally to more open and relaxed interviewees, who give more free and true answers. The qualitative method is very flexible as it is possible to change the problem definition and the interview questions during the time of study. Further, there is susceptibility to new knowledge and perspectives. The strength is that it creates a deeper understanding of the problem area, but if the flexibility is too extended, there are difficulties in the comparison of the collected information (Holme & Solvang, 1997). In order to avoid the difficulties with a too extended flexibility, a great preparation was achieved and the interview questions were greatly discussed before the interview occasions. Further, all the interview questions were posed to all the interviewees and none of them were changed.

2.2 Theoretical Research

To get a deeper knowledge in history, development, structure and basic principles of the Swedish accounting and the IASB’s accounting, the accounting laws and standards in both systems were thoroughly reviewed. Furthermore, literature, books, articles, dissertations and theses that discussed the different areas within the field of study were gathered. Research databases such as Business Source Premier and Emerald Insight were used. Examples of words applied in the searching process are *god redovisningssed*, *true and fair /view/*, *international accounting*, *Anglo-Saxon and fair value*. Some reference lists in other theses, books and articles have also been used in order to find qualified theoretical sources. Primarily, articles in scientific magazines and scientific books have been used as foundation for the study. However, due to its current interest there is a lack of newly implemented scientific researches within the research area of this thesis and within some of the fundamental concepts. *God redovisningssed* is the clearest example, where non-scientific articles have also been used in order to survey this notion. The reliability in these articles can of course be questioned. Nevertheless, the statements in this data has been questioned even more, as well as verified through scientific researches.

Some of the articles, which were produced in the early 1990’s, can be considered as too old-fashioned and thus, have a lack of validity. In opposition, they are combined with and supported by newer articles and books. However, the old articles contribute to a broader perspective and analysis of the overall picture of the different aspects discussed. Moreover, the author Christopher Nobes is frequently referred to in this thesis because he has produced many international scientific articles and books, primarily about true and fair view. This can possibly cause a biased aspect and a finite perspective of the theoretical research. Conversely, Nobes is a highly educated and experienced professor at PricewaterhouseCoopers and has been a representative on the board of the International Accounting Standards Committee⁵ (the IASC) for many years. Furthermore, he has written several of his articles and books together with other professors or well educated persons, which give a broader perspective to the article. Finally and most importantly, there are also a great amount of other well educated and experienced authors represented in this thesis, whose opinions and standpoints are presented in order to secure the reliability and widen the perspectives. It can be considered to be a satisfying number of different sources and authors in the thesis.

⁵ The predecessor of the IASB.

2.3 Empirical Data

The empirical data is based on respondent interviews, and a selection of six persons who work closely within the research area has been made (Holme & Solvang, 1997). The procedure of the interviews is described as well as the questions, and the compilation of the findings in order to create a better understanding of the empirical findings has given validity to the analysis of this thesis.

2.3.1 Empirical Selection

The objective of this thesis is to examine the current practical norm of accounting among companies and auditing firms, and to do a case study. In the early stages of the work it was therefore decided to do interviews with well-informed representatives in the auditing branch as well as in leading publically traded company groups. The interviewees are further presented in section 4.1.

The selection of the four auditing companies is considered to be reliable, as these four firms are the biggest and leading enterprises within this branch. Further, they are international and have been working with many of the company groups implementing IFRS during the last years. There are of course other auditing companies which have been working with the transformation: In order to get the most trustworthy survey of opinions within the auditing branch, interviews with all of them should have been implemented. However, the interviewed representatives of the four leading auditing enterprises are considered to have given representative and trustworthy information, as the aim is to perform a qualitative study, which focuses on finding a deeper knowledge about the research area.

According to Gustafson (2006) *god redovisningssed* has been developed during many years into the concept it is today and big companies and their practical accounting solutions have been a part of this development. Therefore, two of the leading Swedish companies were chosen to investigate their opinions about accounting practice. Volvo and SKF are two companies with their headquarters in Gothenburg, which facilitated the interviews. According to Anki Walldén (27-04-2006), Volvo regularly contacted other leading Swedish companies to discuss common accounting problems and practical solutions, which affected Swedish accounting norms. Therefore, Volvo and SKF are considered good and reliable representatives of big companies in Sweden. Also included is that these companies have a long-lasting and strong tradition in the Swedish history. The choice of companies can be questioned, firstly, because there are many companies other than Volvo and SKF that have affected Swedish accounting practice. Secondly, only one person in each enterprise has been interviewed and of course there can be several aspects of accounting practice within each of these big companies. However, the two persons chosen are considered good representatives of the accounting practice of today, as they have extensive experience about how accounting practice is developed as well as strong positions within the companies. Additionally, it is to be noted that Volvo and SKF may reliably represent the biggest consolidated accounts in Sweden and that this research possibly does not cover medium-sized consolidated accounts that also have transformed to IFRS. According to some of the interviewees, for instance Andreas Wikner, these smaller companies have not had the same resources to understand and adapt to the new accounting system of IFRS as Volvo and SKF.

2.3.2 The Interviews

Six research interviews were performed between the 24th and the 27th of April 2006 that mainly had a formal and unstructured performance and therefore a list of a number of open-ended questions have been used (the questions are presented below). A formal and unstructured method is a good example of a qualitative interview method (Holme & Solvang, 1997). Hence, information about qualitative aspects was gathered, which is in accordance with the general research method of the study.

The interviews were performed at the interviewees’ offices, which is a familiar environment and thus creates a more relaxed situation. Every interview lasted for the longest one hour. The problem definition was sent to the interviewees beforehand in an e-mail, in order to prepare the person for the subject. Consequently, the questions were not sent in advance as it can cause some disadvantages (Jacobsen, 1993). For instance, the interviewee has then had some time to prepare the answers, which gives no spontaneous answers. Furthermore, the interviewee could also have adopted the answers to what he/she should say, not what the truth is. Of course, by sending the problem definition in advance, the interviewee had the chance to prepare some of the answers, but as it was a demand from several of them and it is considered fair to introduce the interviewee to the subject (Trost, 1997), this is regarded to be justified.

A recorder was used in order to better save the interviewees’ opinions, which created the possibility to recheck their statements and therefore made the interviewers more attentive and comfortable during the interview. On the one hand, a negative aspect of recording is that the interviewee can get restrained and uncomfortable, which impacts the quality of the interview (Trost, 1997). On the other hand, the impression was that none of the interviewees were distracted by the recorder.

In each interview mostly open-ended questions were applied in order to get as much information as possible (Jacobsen, 1993). In addition, this method can illustrate new perspectives that have not been considered before. When it has been necessary, further questions within the new perspectives have been asked. This can be seen as a more unstructured methodology as it allows the researcher the flexibility to pursue new issues and ideas as they are raised (Ryan, Scapens & Theobald, 2002). A negative aspect of open-ended questions is that, the interviewee can tend to give an answer, which does not answer the question. Further, there is a risk that the interviewee gives a more extended answer that is not in focus of the interview area.

The comparability can also be decreased in comparison with structured questions with few alternative answers (Jacobsen, 1993). However, when using open-ended questions the validity of the answers is high, as the interviewees can express their opinions with their own words. Throughout the interviews effort was made, when necessary, to repeat the questions in another way in order to secure answers of the posed questions. Therefore, the comparability of the output is extensive. Moreover, another difficulty with open-ended questions is the possibility to pose leading questions (Jacobsen, 1993). During all interviews it has been taken into consideration not to pose leading questions, in order to get as objective answers as possible. Below, the interview questions are presented:

1. Please tell us a little bit about yourself, your work experience, education and position within the company.
2. How have you experienced the change from Swedish accounting principles to the standards of the IASB?
3. How have you proceeded to realise the change of accounting principles?
4. What is *god redovisningssed* to you and why?
5. What is true and fair view to you and why?
6. When comparing *god redovisningssed* and true and fair view, can you see any equalities and differences?
7. Do you think that true and fair view is an equal support within accounting regulation as *god redovisningssed* has been? Why?
8. Is there a Swedish practice about true and fair view? If yes, does it diverge from the IASB’s interpretation?
9. The Framework of the IASB aims to ensure a high degree of transparency and comparability. How will transparency and comparability be affected by the change from *god redovisningssed* to true and fair view?
10. Has true and fair view replaced *god redovisningssed* or is *god redovisningssed* still used in practice?
11. Do you have any further comments or thoughts about this subject?

The first question was asked with the purpose to find out the background of the interviewee as well as to start with an “easy” question to make the person secure and calm. Question number two and three were very general and open-ended which invited the interviewee to speak about the most relevant aspects in accordance with his/her experience and knowledge. Moreover, question number four and five concerned the interpretations of *god redovisningssed* and true and fair view and can be seen as very objective, general and open-ended questions (Jacobsen, 1993). In question six and seven the intention was to invite the interviewees to describe the significances in more detail. Further, question eight and nine were posed in order to find out how the two notions and the transformation to IFRS have made an impact. Question number ten is the least general and a relatively closed question, which is directly linked to the problem definition. It can also be seen as a summarising question that confirms what has been stated earlier (Jacobsen, 1993). Finally, question eleven gives the interviewee the possibility to further add something of importance that the other questions do not cover, again in order to avoid to only present empirical findings from the authors’ point of view. The comments to this question have been presented within the affected areas in chapter 4.

2.3.3 The Compilation of the Empirical Findings

As soon as possible after each interview the answers of the interviewees were compiled, in order to take credit of good memory from what was said. The compilations were made based on the notes from the interviews, which are not exact copies of what the interviewees said. Uncertainties of some answers were checked with the recordings of the interviews in order to give a correct picture of the interviewees’ answers and to increase the reliability of the study. Only the parts of the interviews relevant to this thesis have been summarised (Jacobsen, 1993). Then, all the compilations were sent out by e-mail to the interviewees. It gave them the opportunity to confirm and sometimes change their answers to their proper opinions if they had been interpreted wrongly or if they had been translated strangely into English (Holme & Solvang, 1997). It is important to emphasise that the interviewees only had the possibility to correct misunderstandings. Thus, the verification of the answers provides a strong reliability of the findings.

All the compilations of the interviews were put into the thesis by gathering all the answers under each question. This gives a great comparison of the different interviewees’ answers as well as different aspects of the questions. Thus, the empirical findings are presented through a question-based perspective, however in order to create a better structure and ease the reader’s understanding of the main theme the findings have also been organised in accordance with a thematic approach (Åkesson, 09-05-2006).

2.4 Validity and Reliability

In order to produce a trustworthy and appropriate thesis, the validity and reliability have to be high. It is important to secure that the study examines what it aims to examine, which gives high validity. Further, high reliability is significant, thus the examination has to be implemented in a reliable way (Patel & Davidson, 1994).

A research with high reliability is characterised by the same result of the thesis, irrespective of who has implemented it (Lundahl & Skärvad, 1992). As stated in the methodological dilemma (Holme & Solvang, 1997), a qualitative research method can not give perfect reliability, instead it has to be augmented as much as possible (Patel & Davidson, 1994). Several actions have been taken to increase the reliability of the thesis: two interviewers have taken notes during the interviews, the interviews have been recorded and the same questions have been posed to all of the respondents. Every action has been taken in order to avoid the influence of the coincidence, and consequently give a high reliability to the result of the thesis. A measuring instrument is useless if it is applied in the wrong way, thus reliability is a necessary condition for validity (Lundahl & Skärvad, 1992).

Lundahl and Skärvad (1992) differentiate between internal and external validity. The internal validity is high when the measuring instrument examines what it is intended to examine. The awareness that the instrument can measure too much, too little or wrong areas is important in the assessment of the internal validity. This thesis is considered to have good internal validity as the answers of the interviewees as well as the theoretical framework have contributed to and given a good foundation of the research. External validity is determined through the correspondence between the empirical findings and the actual reality. For instance, the interviewees’ answers are not always correct, sometimes they do not remember correctly or they interpret the question wrongly (Lundahl & Skärvad, 1992). This has been obstructed through the interviewees’ confirmations of the compilations of the interviews. Complete validity in a qualitative research is not possible, however through the efforts presented in the method chapter, the validity in the thesis is considered to be satisfying.

3. Theoretical Framework

Firstly, this chapter presents the two fundamental accounting traditions. They generally describe the difference between Swedish accounting and the accounting of the EU, applicable to all consolidated public companies in the EU. Further, the Swedish accounting is presented and the accounting of the EU, the standards of the IASB. Finally, the concepts god redovisningssed and true and fair view are explained and defined.

3.1 Two Different Accounting Traditions

Many different classifications of accounting systems can be found in theory. Several are based on culture in different perspectives (Nobes & Parker, 2004). Doupnik & Salter (1995) argue for a model that forms nine groups of accounting traditions. However, this thesis has been based on a two-group model, the Anglo-Saxon and the Continental accounting traditions, this is one of the most common perspectives in theory used and confirmed by many theorists including Flower (2002), Nobes & Parker (2004), Porcano and Tran (1998) and Smith (2006). There are many who criticise this two-group model, for instance Alexander and Archer (2000), who claim that the Anglo-Saxon approach of the financial accounting is a myth. However, there are still persons that have overcome the argued myth, for example Nobes (2003) who is strongly for the two-group model. Consequently, the Anglo-Saxon and the Continental accounting traditions have strong positions in today’s accounting world and therefore this perspective will be used in order to further explain differences between the Swedish accounting system and the accounting system of the IASB.

3.1.1 The Continental Accounting Tradition

The Continental tradition has its origin in Roman law, a system clearly based on civil law. To be precise, the civil law is based on written laws. The company legislation is a part of the civil law and therefore the accounting has to a great extent been regulated in the company law (Smith, 2006). Due to the connections between accounting law and tax law the accounting in the continental countries has been greatly affected by tax regulation. When classifying countries in accordance with the Anglo-Saxon contra Continental approaches the European countries, with the exception of Great Britain, Ireland and the Netherlands, these countries traditionally are seen belonging to the Continental system. Moreover, Japan’s accounting system has been highly influenced by this approach as well (Smith, 2006).

What is significant for the Continental approach? Porcano and Tran (1998) describe the main features of both of the systems and state that the Continental tradition has grown in countries with small capital markets, where the main providers of capital are banks and governments. The law system in the countries is codified, and the commercial law contains detailed accounting rules. The financial reports are set up in order to serve as a basis for credit provision, taxation and economic planning. In continental countries, there is generally a small accounting profession, moreover the accounting rules are to a great extent influenced by the tax regulation. There is normally a homogenous user group of the financial information, a group consisting mostly of creditors (Blake et al, 1997). Due to this fact, the data and financial reports are permeated by secrecy and a prudent way of accounting. Blake et al (1997)

emphasise that a main principle within the continental tradition is form over substance.

3.1.2 The Anglo-Saxon Accounting Tradition

The Anglo-Saxon accounting tradition originates from Great Britain but is also developed in other countries. Usually, the term applies to the accounting tradition in the US, Great Britain, the Netherlands, Ireland, Canada, and Australia, as well as other English-speaking countries (Smith, 2006). The Anglo-Saxon tradition and especially Great Britain states that the financial reports should present a true and fair view. The Anglo-Saxon countries are identified by having in common:

...a legal system based on Common Law, a modest influence of taxation on financial reporting, the stock market being an important element of the corporate financing system and a strong accountancy profession. (Flower, 2002:56)

The Anglo-Saxon accounting tradition has a strong culture and a long history. The accounting system is greatly influenced by Common Law, which has a powerful position in English law. Common Law can be traced to the Norman conquest of Britain (1066) (Smith, 2006, Evans, 2004:213), but it was formed during the thirteenth century. The feudal courts and, in particular the royal courts of Westminster, implemented Common Law in England during the thirteenth century. Consequently, case law was developed by judges in court (Evans, 2004:213), which is still today the case through Common Law that has great impact on the English regulation system of today.

Taxation has never influenced financial reporting in Great Britain. The main reason is that the obligation of tax on income was introduced in 1799 and the general accepted accounting principles for financial reporting was developed in the second half of the nineteenth century. Income tax developed its own rules, which were not followed by the principal-setters of the financial report that started some decades later (Flower, 2002:93f).

The financial reporting of today originates from the mid-nineteenth century and Britain, where a growth in industry made a shortage of money (Flower, 2002:90f). Many corporations were constituted which created possibilities for shareholders to invest money with limited liability on the stock exchange. When the separation of control from ownership in the companies developed in Britain, the financial statements became very important in order to inform about the corporation's financial situation and performance (Flower, 2002:91f). The demand for someone controlling the verifiability of the corporations' financial statements developed a new profession, auditing. According to Nobes & Parker (2004:145), the first accounting associations were formed in Great Britain during the nineteenth century in order to organise the profession and its knowledge. The reporting practice developed by the auditors in these organisations, strongly influenced the whole market and companies turned to the auditors to get advice of how to account (Flower, 2002:46). Consequently, already as early as in the nineteenth century the professional accountancy bodies had a great influence on the business world in Great Britain.

3.2 The Swedish Accounting

The Swedish accounting system has been developed for a long time, and has been strongly affected by practice. Three Swedish accounting bodies have influenced this development and have until today had a crucial role in the progression of the accounting system. The following sections will focus on and extend the knowledge within these areas.

3.2.1 The Development of Swedish Accounting

Historically, Sweden has belonged to the Continental accounting tradition. The last decades the accounting system has become more and more influenced by the Anglo-Saxon accounting tradition and Sweden can now be seen as a country torn between the two approaches (Blake et al, 1997). The development of the Swedish accounting has been caused by many factors. This section aims to examine these factors.

In the pre-World War II period, the Swedish legal and accounting systems were mainly influenced by Germany (Kedner, 1990), thus the Continental accounting system prevailed. The strong German influence during these years was a natural consequence of the fact that Germany was the dominant trade partner for Swedish industry at the time (Jönsson, 1996). Moreover, the first two professors of accounting at the business schools in Stockholm and Gothenburg were Germans and they had a great impact on the accounting development. The professors held their positions for a very long time, which further strengthened the impact of the Continental accounting tradition (Jönsson, 1996). The strong German influence also contributed to a connection between taxes and accounting, expressed in the Municipal Income Tax Act passed in 1928. The connection was complete and the law regulation aimed to satisfy the creditors and the tax interests of the state (Smith, 2006).

Another factor that affected the development of the system was the Krüger crash in the 1930's. Krüger, who was a successful Swedish business man, had been able to manipulate the accounting system and the consequences were firstly that the spheres of interest became centred on major banks and investment companies. Secondly, the power shifted from business to government. There was a need of a stronger regulation of the economy, a regulation that at this time only could be performed by the government as the accounting profession was small and therefore had little influence (Jönsson & Marton, 1994). Accounting practice had until then been regulated through legislation and this trend was now strengthened (Jönsson, 1996).

Consequently, during these years the accounting system showed typical signs of the Continental tradition: The capital markets were small and the main providers of finance were banks and the government. There was only a small accounting profession, not able to influence the regulation of accounting. Additionally, taxation was taken into great consideration in order to set accounting rules (Porcano & Tran, 1998).

After the second World War Sweden's industry was intact and as a result the export rate rapidly increased. The companies grew strongly and the international trade led to a gradual change in the accounting tradition, which started in the 1960's. The new influences came from the Anglo-Saxon countries, primarily from Great Britain and the US. The accounting still had a formal connection to the tax system, but deviations

from the true value were presented in the balance sheet and the profit and loss account. Consequently, the new influences had a great impact on the accounting tradition and in the 1970's this change was also reflected in the Swedish law and more exactly in the Companies Act and the Accounting Act (Smith, 2006). In these acts the concept *god redovisningssed* was implemented for the first time. In 1977, Heijtz and Rydström state, in a description of the new concept, that *god redovisningssed* is a substitute of the former general rules of bookkeeping and the older Swedish concept *god köpmannased* (good merchant practice). Further, they conclude *god redovisningssed* to contain general accepted bookkeeping principles, irrespective of the companies' organisation, branch or size. The shift of tradition, partly illustrated in the new acts, meant a definite break with German influence on business economics in Sweden (Jönsson, 1996), however the formal link between tax and accounting still remained (Smith, 2006).

In the 1980's the internationalisation grew stronger as the financial market activity increased due to the removal of the restrictions on currency and lending operations. Moreover, the big Swedish companies moved abroad to adapt to the development. Simultaneously, the impact of the Anglo-Saxon tradition increased. Until 1995, this development was not reflected in the accounting regulations. In 1995, the new Accounting Act was presented, which was necessary in order to implement the EU Fourth and Seventh Directives on accounting harmonisation (Artsberg, 2003). The concept *god redovisningssed* permeates the act as it is said that the annual report should be established in accordance with *god redovisningssed* (ÅRL chapter 2, §2). However, a new concept was implemented: the balance sheet, profit and loss account and the notes shall be established as an entirety and give a true and fair view of the position and result of the company (ÅRL, chapter 2, §3). In the third section of the act, it is also stated that notes should be presented, if it is necessary in order to present a true and fair view. Further, a deviation from accounting advises and recommendations of accounting bodies could be implemented, in that case the reasons for the deviation must be specified in a note. A reason for diverging from the recommendations could be the endeavour to account in accordance with a true and fair view. However, the overriding rule in the EU's Fourth Directive was not implemented in the Swedish law. The overriding rule says that, a departure from other regulations shall be done in order to account in accordance with a true and fair view. The rule was not implemented, as the Swedish authorities wanted that the companies should not feel insecure when accounting, according to regulations and standards (Artsberg, 2003).

Consequently, the influence towards an Anglo-Saxon tradition has grown during the last decades, which can be exemplified by the new act in 1995 and its reference to a true and fair view. Nevertheless, there are several signs of the Continental tradition in the act as well. For instance, the Accounting Act of 1995 continues with the tax-accounting link, (Blake et al, 1997). However, a step in the direction of a total separation of the tax-accounting link was already taken in 1991 in the recommendation of RR (Smith, 2006:74), and this is an alignment that has grown stronger during the last years.

From the beginning of 2005 the public consolidated accounts and other enterprises with public interest in Sweden account in accordance with the standards of the IASB. This means a complete transition to international regulation, and thus a definite break

with Swedish accounting rules as well as the tax-accounting link. Consequently, this means an explicit break with the concept *god redovisningssed* (Bengtsson, 2005).

3.2.2 Swedish Rule-Making Bodies within Accounting

In addition to the accounting rules of the legislation, there are in several countries accounting bodies, which produce complementary recommendations and requirements. These authorities are often constituted of accountants, representatives of business and other specialists. Accounting bodies are common in countries with the Anglo-Saxon tradition. In contrast, there is normally no room for such recommendations in the Continental tradition, which has a comprehensive codified legislation. Sweden that traditionally has a Continental accounting tradition, constitutes the exception with three standard-setting bodies within accounting. The legal provision, which has empowered these bodies, is that accounts should be prepared in accordance with *god redovisningssed* (Blake et al, 1997:87).

Föreningen för revisionsbyråbranschen, FAR (The Swedish Institute for Authorised Public Accountants)

FAR is a professional body for authorised and approved public accountants, as well as qualified specialists within the auditing branch (Far, 2006). It is the oldest Swedish accounting regulatory body, established in 1923 (Blake et al, 1997). In the beginning, FAR had few members and therefore little influence on the accounting regulation in Sweden. However, in the 1960's, FAR gained a stronger role by initiating rule making activities and since then the influence of the organisation has grown and FAR has been an active participant in Swedish accounting standard setting. FAR is currently seen as one of three rule-setting accounting authorities in Sweden. This position was clarified in the 1976 Accounting Act, where FAR was mentioned as one of the organisations that would interpret and clarify the law (Jönsson and Marton, 1994), consequently to specify the meaning of *god redovisningssed*. In 1989, FAR transferred the main part of its accounting activities to the recently formed authority, Redovisningsrådet (see below). This event changed the core activities of FAR, activities that have been even more amended after the new EU regulation and the implementation of IFRS. Today, FAR is involved in several international organisations, one of them is the IASB. Moreover, the aim of the organisation is to “Engender interest and understanding for the auditing branch as well as producing norms and support for the members’ profession and business activities, to facilitate for the members and their companies to create values for the business world and the society” (Far, 2006). Thus, FAR no longer does produce accounting standards.

Bokföringsnämnden, BFN (the Accounting Standards Board)

In 1976, a governmental body under the Ministry of Justice, Bokföringsnämnden (BFN), the Accounting Standards Board was set up (Blake et al, 1997:88). This authority was founded in connection with the adoption of the new Accounting Act (Jönsson and Marton, 1994). BFN includes representatives from a range of sectors of society affected by accounting, including auditors, business, the tax authorities, the stock exchange, academia and trade unions (Blake et al, 1997:88). The organisation has the primary responsibility to further the development of *god redovisningssed* (Bengtsson, 2005), which is done through recommendations and statements but also by following the development of practice as well as identifying potential accounting problems. The Board has a complete responsibility for questions about bookkeeping furthermore it is responsible for questions about accounts in non-publically traded

companies. Therefore, Swedish companies that have to follow the standards of the IASB can just find use of the Board’s recommendations about accounts in exceptional cases. From the beginning of 2000, BFN has produced recommendations that are based on and constitutes simplifications of the recommendations of Redovisningsrådet (the Financial Reporting Council) (Bengtsson, 2005).

Redovisningsrådet, RR (the Financial Reporting Council)

In 1989 FAR and BFN, together with the Federation of Swedish industries, joined together to promote a new body, Redovisningsrådet (RR), the Financial Reporting Council (Blake et al, 1997:88). The parties aimed to gather all standard-setting functions for public companies listed on the stock exchange into one accounting body. Since then, RR has published 29 recommendations, the last one in 2002, which have been intended for publically-traded companies and other enterprises with public interest. The starting-point for the preparation of the recommendations was the standards of the IASB, and deviations from these standards were only implemented if the Swedish law impeded a direct translation (Redovisningsrådet, 2006). The recommendations of RR constitute *god redovisningssed* and are therefore indirectly enforceable through the accounting laws (Jönsson and Marton, 1994:196). However, to constitute *god redovisningssed* the recommendations also have to be followed by a qualitatively representative sample of companies (Jönsson and Marton, 1994). In practice, the recommendations of RR did not only influence the public companies listed on the stock exchange, but were also likely to stimulate *god redovisningssed* with the intention that private companies would also follow the same standards (Blake et al, 1997).

From the beginning of 2005, RR’s functions changed due to the implementation of the IASB’s standards in the Swedish Accounting System. Consequently, the recommendations are no longer valid for consolidated accounts of publically-traded companies. To give complementary advise to the companies, which are accounting in accordance with IFRS, RR has published the recommendations RR 30 – 32. However, the old recommendations have not been annulled, as they constitute the base for the recommendations of BFN as well as they are still used by some non-published companies (Bengtsson, 2005).

3.3 The European Union Accounting

Since the entrance in the EU in 1995, Sweden has been strongly affected by international accounting traditions. The European Union has for many years worked for a harmonisation in accounting and in 2002 it was decided that the standards of the IASB should be applicable to all member states. In this section the EU’s harmonisation development will be discussed as well as the role of the IASB.

3.3.1 The European Union

The Treaty of Rome of 1957 describes the establishment of free movement of persons, goods, services and capital and it indicates the aim to a greater harmonisation within the European Union (the EU). Furthermore, the EU has for more than thirty years actively worked with financial reporting and in particular with a harmonisation of accounting principles within the member states (Flower, 2002:201). According to Flower (2002:201ff), there are three main reasons why the EU seeks harmonisation; a common market, protection of shareholders and competition. A common market is

essential in order to facilitate for the companies to use their capital in the best possible way. If it is more profitable to raise capital in another member state, there should be no obstacles like different rules or strange financial reporting that prevent this action. Hence, within an efficient common market there are no major differences between the countries. When the ownership is separated from the control of the corporation, the shareholder is vulnerable. The EU wants to protect both the domestic and the foreign shareholder by the protection of the interests of shareholders, which should be equivalent throughout the community. Finally, Flower (2002:201ff) states as the third reason in the aim of a harmonised Union, that the competitiveness of the enterprises should be equal. It is not fair if one country can give its companies more benefits or accept a poorer financial reporting that does not show as much important facts to the competitors.

The EU achieves a better harmonisation by implementing directives, which are a sort of EU law directly applicable to all member countries. Today, the Fourth Directive is applicable to all accounts of individual enterprises in the EU and the Seventh Directive is valid for consolidated accounts (Flower, 2002).

The Fourth Directive was published for the first time in 1971 and was then heavily influenced by German company law. Consequently, the valuation rules were conservative and the notes were limitedly developed, (Nobes & Parker, 2004:96ff). After Great Britain and Ireland entered the EU, the directive was amended and “true and fair view” was implemented as well as an increased flexibility in the presentation of the reports. Since then, true and fair view has expanded and reached a more extensive use in the Union (Nobes & Parker, 2004:96ff). In 1995 the EU allied to the IASC (today the IASB) and its accounting standards. In order to further develop the harmonisation within the EU, the European Parliament and the European Council adopted, in July 2002, the regulation (EC) no. 1606/2002 that describes the application of International Accounting Standards (IAS), which is compulsory in all countries within the European Union. According to the application the basic requirement is to present a true and fair view and the aim is to:

...ensure a high degree of transparency and comparability of financial statements and hence an efficient functioning of the Community Capital Market and of the Internal Market. ((EC) no 1606/2002:3)

The application comprises the consolidated accounts of publically traded companies in the European Union and these companies are obliged to follow it for each financial year starting on or after the 1st of January 2005. The standards referred to in the regulation (EC) no 1606/2002 is developed by the IASB (IASB, 2006). Moreover, the standards must be endorsed by the EU before they are applicable to member states. The annual accounts of individual companies are still to be governed by the national laws as the connection between accounting and taxation still is strong in many countries, but the country can choose whether the rest or part of its enterprises should follow the international standards (Schaub, 2005).

3.3.2 The International Accounting Standards Board

The International Accounting Standards Committee (the IASC) was the predecessor of the International Accounting Standards Board (the IASB). The former operated from 1973 to 2001 and was created by accountancy bodies in Australia, Canada,

France, Germany, Japan, Mexico, the Netherlands, Great Britain, Ireland and the USA. The IASC had the intention to replace the different national accounting rules with an international set of rules. The organisation had no official status. As a result it could only recommend and not force anyone to follow its standards. During the organisation’s first twenty years it produced many standards (IASs), but they were vague and indicated many alternatives, which gave little success in their aim to implement an international common accounting practice (Flower, 2002:230). However, since the beginning of the 1990s there have been two major changes that changed the situation for the IASC. In 1995, the EU decided to ally to the IASC and permitted European enterprises to use the IASC’s standards for their accounts. The IASC was also accepted by the world’s stock exchanges. Thus, the status of the IASC increased dramatically (Flower, 2002:230). Due to several problems, for instance the reduction of efficiency of decision making as the number of board members increased, there was a decision made to reorganise the IASC. The new organisation was going to be smaller, contain mostly full-time members and have a much larger technical staff (Whittington, 2005:130).

The new body, called the IASB, is a private, non-for-profit and international organisation that produces International Financial Reporting Standards (IFRS). These IFRSs are suitable for the international capital markets. Whittington (2005:128) presents that according to a wider survey, there are more than 90 countries that have either required or permitted IFRS for listed companies from the beginning of 2005. The EU countries as well as China, Australia, New Zealand, South Africa and countries in South America are some of them. Schipper (2005:105) argues that there will be an augmented demand for authorised detailed implementation guidance to the IASB as there are many new IFRS users after 2005. The IASB objectives are;

- a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions.*
- b) to promote the use and rigorous application of these standards.*
- c) to bring about convergence of national accounting standards and international accounting standards to high quality solutions.* (Flower, 2002:249)

The new body of the IASB is dominated by the developed countries and especially the Anglo-Saxons, describes Flower (2002:256f). Further he claims that as it takes eight votes out of fourteen to approve a standard, the Anglo-Saxon members have a good position to bring about their traditions. Brackney and Witmer (2005) have also commented the members’ geographical background by arguing that the IASB’s aim to be an international standard-setter is ensured through the strong commitment of the EU and the US. These contributors are also strongly represented in the body and together the EU and the US account for 10 of the 14 Board members.

There is an important activity in the convergence project with the US where the IASB and the FASB (the Financial Accounting Standards Board in the US) are trying to eliminate as many differences as possible (Nobes & Parker, 2004:104, Schipper, 2005:101f). Furthermore, if the US stock market would accept European financial

reports based on the IASB’s standards, many companies traded on the US market would only have to produce financial reports according to IFRS.

3.4 God Redovisningssed and True and Fair View

God redovisningssed has had a strong position within the Swedish accounting. Today when international accounting rules are implemented in Sweden, another concept, true and fair view is expanding in importance.

3.4.1 God Redovisningssed and the Dominance of Practice within Swedish Accounting

The Swedish accounting concept *god redovisningssed* has created a solid base for accounting and regulations since it was implemented in the Swedish Accounting law in 1976. The rule-making bodies have participated in the development of the concept and companies have classified *god redovisningssed* as a good support in the production of accounting as well as in accounting questions (Blake et al, 1997). *God redovisningssed* has been strongly connected with the Continental tradition and its main characteristic prudence (Jönsson & Marton, 1994). However, as *god redovisningssed* is a complex concept, it is difficult to fully determine its meaning. Moreover, the influence of *god redovisningssed* in Swedish accounting has decreased due to the implementation of new international regulations. But why has *god redovisningssed* got such a central position within Swedish accounting and how can *god redovisningssed* be defined?

Mostly, the Swedish accounting legislation only provides a framework of accounting standards, which means that other normative sources are needed in order to specify the accounting rules. Thus, the Swedish legislation refers to *god redovisningssed* (Artsberg, 2003). Jönsson and Marton (1994) state two reasons for the strong position of *god redovisningssed* in Swedish standard setting. To begin with, companies had to follow *god redovisningssed*, further, the concept provided many of the specific accounting rules that were a result of accounting standard setting. The bodies that have formed *god redovisningssed* over the years are FAR, BFN and RR. Today BFN is responsible for the development of the concept. The accounting authorities have had a strong position in the development of accounting practice. Jönsson (1996:6f) claims that one reason is the pronounced trust relationship between industry and academia that began in the early decades of the 20th century. The parties debated questions and found pragmatic solutions together, solutions that later on were implemented in practice. Thus, Jönsson (1996) maintains that the production of accounting standards in Sweden traditionally has been based on practice and states that a pragmatic view within Swedish accounting regulation always has been prevailing.

There are not many sources that present a complete definition of *god redovisningssed*, which emphasises the difficulties in the interpretation of the concept. However, a compilation of the definitions found will be presented below.

As stated earlier, the Swedish accounting legislation provides a framework of accounting standards and *god redovisningssed* acts as the concept specifying the details of the legislation (FAR, 2006). In the preparations of the Accounting Act of 1995 *god redovisningssed* is specified as prevailing practice within accounting as well

as recommendations from accounting bodies, furthermore it is stated that in occasional situations it can be necessary to diverge from these advice in order to present a true and fair view (Artsberg, 2003). In addition, as the legislation and accounting recommendations only provide a framework of accounting rules it is common that they do not present traditional interpretation, thus an extensive interpretation has to be done. This interpretation has to be rooted in actual existing accounting, but also has to be identified by one or several accounting bodies (FAR, 2006). Hence, Blake et al (1997:88) argues that *god redovisningssed* arises when both of the two conditions are met:

1. *An accounting recommendation has been made by a recognised authoritative body.*
2. *The method is used widely and applied by a large and representative circle of companies.*

Blake et al (1997:88) supplement that in the second case, it falls to the courts to adjudicate on what constitutes *god redovisningssed*. Further, the concept of a “large and representative circle of companies”, in many cases cited as “a qualitative representative sample”, is continuously questioned and defined through the accounting debate (Jönsson and Marton, 1994) in order to reach the best interpretation of *god redovisningssed* possible.

As discussed in section 3.2.1, there has existed a strong link between taxes and accounting in Sweden over the years. The connections have been both material and formal. With material links one means that the financial accounting profit constitutes the basis for taxable profit. With formal links one means that book expenses are required for a tax deduction to be valid. Thereby, accounting influences tax and tax influences *god redovisningssed* (Jönsson and Marton, 1994:201). As a result, when examining the significance of *god redovisningssed* the influence of tax regulations also has to be considered.

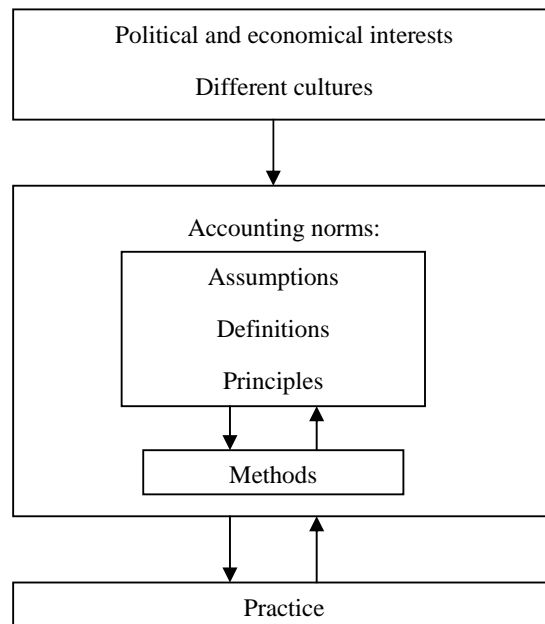


Figure 1. Model of the development of accounting norms for commercial accounting (Gustafson, 2006:18)

Gustafson (2006) compiles the definitions of *god redovisningssed* into a modified interpretation. She states that *god redovisningssed* is constituted by accounting rules, which have been drawn up from practice in companies, activities of the accounting bodies as well as from the regulations of the state. The accounting method applied is a result of assumptions, definitions and principles of the different operators mentioned. The assumptions, definitions and principles have also been affected by political, economical and cultural interests. Further, the accounting methods in use have been affected by the companies' practical solutions of accounting problems. Gustafson (2006) summarises her theory in a figure called “Model of the development of accounting norms for commercial accounting” (figure 1).

3.4.2 True and Fair View

True and fair view is a broad concept and it is well known and widely used in companies' external financial reporting and auditing. Furthermore, Ekholm and Troberg (1998) as well as Schaub (2005) declare that the Fourth Company Law Directive states that the audited annual report shall give a true and fair view of the company's assets, liabilities, financial position and profit and loss. Alexander (1993) claims that true and fair view originates from Great Britain and the notion has been used by British companies ever since the beginning of the financial report's introduction in different variations as “full and fair” and “true and correct”. According to Nobes (1993) the expression true and fair view first appeared in the British law in the Companies Act in 1947. Moreover, in Britain, true and fair view communicates an overriding rule which means that it is accepted to ignore certain accounting rules if one can claim that it is a truer and fairer view to account in another way (Flower, 2002:106ff, Smith, 2000:76). This overriding rule is not always accepted by other countries adapting the Anglo-Saxon perspectives. In the US true and fair view is called “present fairly”, which is a concept related to true and fair view.

As many new enterprises implemented IFRS in 2005, there is an expanded use of the fair value measurement which has several implications according to Schipper (2005). Firstly, she argues that there can be a shift in the managers' behaviour as the reported results tend to have a higher volatility when using fair value measurements. Further, Schipper claims that both research and accounting education will be affected as more judgements and estimates will be required when deciding fair values, which will produce a need of a different sort of expertise than that of traditional education.

Evans (2004) states that when true and fair view was translated to all the EU member countries' own languages, none of the translations seemed to be equivalent to the English original. There is also a discussion in Aisbitt's and Nobes' thesis about the many variations and explanations of true and fair view, both within and between the countries and over time, which proves that the EU's harmonisation process is far from complete (Aisbitt & Nobes, 2001). In figure 2, they illustrate which countries have a unitary signifier and which ones have a dual signifier in their translations of the directives. Consequently, it can be questioned whether the Swedish translation right-looking picture equalises the true and fair view.

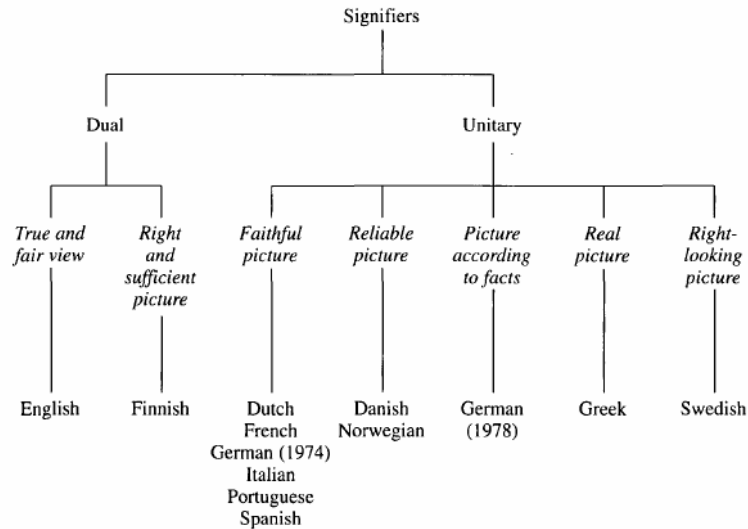


Figure 2. “True and fair” signifiers in the Fourth Directive (Aisbitt & Nobes, 2001)

Nobes and Parker (2004:35) claim that the EU’s Fourth Directive, the true and fair view and its overriding concept of detailed rules in all member states, can have the consequence to create a mask of uniformity that conceals the unchanged old differences.

Ekholm and Troberg (1998) claim norm-setters within accounting are not able to define the meaning of true and fair view. In fact, they maintain that its interpretation and application varies among the EU countries as well as among accountants within a country. There is a short explanation of true and fair view in the framework of the IASB (2001), where it is described that a true and fair view is reached when following the framework and the standards of the IASB. On the one hand, according to Ekholm and Troberg (1998) there are many who believe that true and fair view has little importance and that it has only a symbolic significance or that it changes according to accounting practice. On the other hand, Ekholm and Troberg also present persons that highlight the importance of true and fair view and its overriding concept when describing that it is not possible that rules and recommendations cover all aspects in accounting and therefore true and fair view is always relevant. Ekholm and Troberg (1998) conclude that true and fair view can be seen as a dynamic process rather than a static state. Furthermore, they also summarise the thesis by stating that reporting a true and fair view is to provide unbiased information about a company’s essential values.

Two persons that argue for a limited importance of the true and fair view are Forker and Greenwood (1995), who claim that there is a widely spread opinion that true and fair view is only a symbolic significance for the Great Britain accounting practice, as the concept has no identifiable characteristics and therefore little operational meanings. Forker and Greenwood conclude their thesis by stating that the concept true and fair view should be refocused and its application limited by the Great Britain accounting profession. In contrast, Alexander (1993) explains that true and fair view is an indefinable and flexible construct. Also it is very important as it exists in laws and has many meanings and significances depending on different cultural, legal and accounting attitudes.

Walton (1993:50) describes true and fair view as a code expression among other things, which stands for generally accepted accounting principles (GAAP) and is based on the idea that accounting principles represent a set of pragmatic responses to measurement problems. Furthermore Walton argues that true and fair view is defined by current accounting practice. When claiming that true and fair view is GAAP, he can see:

a) ...its meaning is constructed (perhaps piecemeal by those with an interest in particular changes), b) its meaning relates to a particular culture group and c) its meaning changes over time. (Walton, 1993:52)

The rules define the notion according to Walton (1993) and additionally, he claims that true and fair view in British accounting not only has an operational meaning but also a truly symbolic and political role. The political perspective can be explained by the fact that accountants are trying to defend and enhance their professional status (Walter, 1993:56).

Other identifications and interpretations of true and fair view come from among others Smith (2006), who argues that true and fair view should identify the reality. However, he also states that this famous concept is strongly affected by commercial interests and by auditors’ interests. According to Evans (2004:238), the true and fair view was interpreted as *fairly true and fairly fair* in an English seminar for accountants in 1973. Dean and Clarke (2005) claim true and fair view to describe an entity’s state of affairs, and fair value measurement illustrates an entity’s assets and liabilities. Finally Flower (2002:108) also states that true and fair view in Great Britain justifies the individual accountant to follow accepted accounting practice in areas not covered by the law or by standards.

Some empirical findings have been made in 1991 by Nobes and Parker (1991) who investigated how large companies in Great Britain treated the concept true and fair view. The majority of the British directors took no specific actions to guarantee truth and fairness. Further, the majority equalised “true” with “fair” and claimed no difference between them. The same year Parker and Nobes (1991) also investigated British auditors’ view of true and fair. They conclude that it was the auditors who continued to support true and fair view and its requirement and they also used it the most in practice. 80 percent of the auditors could differ true from fair.

3.4.3 Does *God Redovisningssed* Equalise True and Fair View?

In Sweden, as well as in Denmark, it has been discussed whether *god redovisningssed* is a concept with the same significance as true and fair view. Christiansen and Elling (1994) have summarised the differences between the concepts, which are presented in figure 3.

<i>God redovisningssed</i>	<i>True and fair view</i>
Focus on the company	Focus on the user
Focus on the method	Focus on the overall picture
Focus on the process	Focus on the product

Figure 3. Interpretation of the differences between two comprehensive concepts. (Christiansen and Elling, 1994)

God redovisningssted focuses on the practical solutions that the companies have developed. The concept has traditionally been defined as how “a qualitative representative sample of companies accounts”. Thus, the notion shows how the companies account in practice, which is a sign of the method focus. *God redovisningssted* focuses on the individual solutions and therefore the concept is process orientated. In contrast, the concept true and fair view focuses on the users of the information accounted. It is important that the readers, of for instance the financial annual report, understand the information and do not get misled. Further, as the judgement of whether the financial information gives a true and fair view or not is based on the overall picture given, the focus lies on the final product and not on accounting details (Artsberg, 2003).

4. Empirical Findings

The empirical findings consist of interviews with four accounting experts and auditors as well as with two representatives of the financial departments of Volvo and SKF. Firstly, the interviewees are introduced and then all the answers are presented under each question, which are divided into thematic areas.

4.1 Presentation of the Interviewees

The interviewees are presented with a short background based on the first question in the interviews.

Andréas Wikner – Deloitte

Interview date: 24-04-2006

Wikner is an authorised public accountant and has been working at Deloitte for nine years. He is a manager at the firm and he works with big and medium-sized companies. During the last year he has assisted two companies with the implementation of IFRS. He describes himself as a person with much practical knowledge about auditing.

Jan Hanner – Öhrlings PricewaterhouseCoopers

Interview date: 25-04-2006

Since the beginning of the 1980's Hanner has been working as an auditor. Today, Jan Hanner is working as an expert in accounting at Öhrlings PricewaterhouseCoopers and has been involved in the transformation to IFRS to a large extent.

Pär Falkman – Ernst & Young

Interview date: 25-04-2006

Falkman defended his thesis in 1998 at the School of Business, Economics and Law at Gothenburg University. Further, he has worked at the Swedish financial department and since 2000, he has been employed at Ernst & Young. Falkman works as an accounting expert as well as an author of books and articles. He does not work as an auditor.

Susanne Larsson – SKF Group

Interview date: 26-04-2006

Larsson works at SKF as Director of Group Controlling and Accounting. In 1991, she started as trainee at SKF and has during the years worked at several different positions in different areas within the company.

Johan Kratz – KPMG

Interview date: 27-04-2006

Kratz is an authorised auditor and he has worked at KPMG since 1988. Today, he is a partner in the company and works mostly with auditing in big public companies and many of them have implemented IFRS.

Anki Walldén – Volvo Group

Interview date: 27-04-2006

Walldén has been working at Volvo Cars for 18 years and during these years she has been the director of the group for consolidated accounting among other things. Today

she is working at the headquarters of Volvo with the implementation of IFRS and above all financial instruments and SOX. She started this employment in the autumn of 2005.

4.2 General Comments about the Transformation to the Standards of the IASB

The first two questions concerned the interviewees’ experiences of the change from Swedish accounting principles to the standards of the IASB and how they proceeded to realise the change of accounting principles. The answers of the representatives of the auditing firms stress to a great extent issues of the implementation in general. While the representatives of Volvo and SKF discuss more of the practical matters of the transformation.

4.2.1 How Have You Experienced the Change from Swedish Accounting Principles to the Standards of the IASB?

Kratz and Hanner stress that the change from Swedish principles to IFRS has not been a big difference, as the change in the Swedish accounting system occurred in the 1990’s when RR started to produce recommendations, influenced by IAS. Consequently, the companies have adapted to the standards of the IASB successively, due to the work of RR. The Swedish accounting system shifted from a pragmatic world to a more rule-based system states Hanner and concludes that this shift was a bigger change than the current transformation to IFRS. Wikner also claims that the change of accounting systems has not affected the accounting very much, however the change is visible in disclosures to the annual report. As Kratz discusses the implementation of IFRS he claims that the space for interpretations has decreased and that the flexibility of interpretations in the Swedish system no longer is a possibility. IFRS is a principle-based regulation, which has been implemented in many different countries and Kratz questions whether these countries have interpreted the standards in the same way. Hanner also discusses this issue as he claims that IFRS is based on other basic principles than *god redovisningssed*. He concludes that as IFRS contains a much larger amount of details it is more important to show in notes how the accounting and auditing were implemented.

Larsson is in accordance with the auditors when she claims that the accounting rules and standards of the IASB are quite similar to the recommendations of RR, as these recommendations are very influenced by the standards of the IASC/IASB. When stating this, Larsson thinks that she is representing most of the public companies in Sweden. As Larsson describes the changes due to IFRS within SKF she stresses the fact that the company for a long time has reported according to US GAAP and therefore already has discussed several accounting questions, which have not existed within Swedish accounting practice. Consequently, SKF has already been dealing with several of the questions that have arisen due to the implementation of IFRS. When Walldén describes Volvo’s implementation of IFRS she states that Volvo met other big companies in Sweden like Ericsson, in order to discuss how to account and interpret the standards of the IASB. Further she thinks that when they get more experience and control over the interpretations of the standards they can also discuss the overall picture of the reports. On the contrary, Larsson claims that US GAAP, but also IFRS, do not give much room for interpretations as they give lots of details about

how to account. As the guidance of accounting is very extensive it also contributes to a clearer regulation.

Both Larsson and Walldén claim that the implementation of IFRS went pretty well, even though Walldén stresses that the transformation demanded much time and involvement. Larsson adds that SKF in the beginning thought that the transformation would cause greater changes than it finally did.

4.2.2 How Have You Proceeded to Realise the Change of Accounting Principles?

Hanner states that in general, the Swedish companies still want to account as they like, which earlier has been the custom. Nevertheless, big companies as Volvo and Ericsson have adapted very well to the new accounting system, IFRS and its true and fair view, by putting much time, effort and money into the transformation. According to Hanner, smaller companies in Sweden have had more difficulties as they have had fewer resources to put into the understanding of and the transformation to IFRS, and therefore they have been trying to stick to the old system with the basic principle of prudence. Consequently, the small companies have failed to produce good quality in the reports in 2005. Also Kratz can see big differences in the quality of the reports between the enterprises and he concludes that many companies started the transformation to IFRS too late. However, as Swedish public companies earlier have followed the recommendations of RR, influenced by IAS, he thinks that the effects of the change have been marginal. Many companies have underestimated the extent of the contents in the annual report based on the rules of IFRS, claims Kratz. In addition, Wikner also argues that it will take time before the new recommendations are fully implemented. As the bigger companies have had more resources to implement the new recommendations, they have done a more complete implementation of the new standards than smaller companies. Further, Wikner states that the change has been problematic as the parent company usually uses the Swedish accounting rules and the consolidated company group has to use IFRS. Consequently, the companies have restructured their accounting by creating separate sections for the accounting of the parent company and the consolidated group in the official annual report. Finally, Kratz declares that the four leading auditing firms cooperate in order to reach a branch practice within IFRS.

In 2004, Volvo started the work with the implementation of IFRS. The standards were divided in the working group and the interpretations were discussed with the auditing firm. Very much of the work, of the implementation, was done when producing the annual financial report of 2004. As the content of the report also had to be presented according to IFRS this year, describes Walldén. Larsson declares that SKF started very early with the transformation. Senior employees attended education about the new policies in London, additionally the standards were divided within the Group of Accounting in order to sort out the differences in each standard between the standards of the IASB and the existing SKF rules (based on recommendations of RR and US GAAP). The interpretations of the differences were gathered in a final document, which was approved by the auditor and its accounting experts. However, Larsson stresses that as the IASB was integrated in the new organisation IASB, many standards were changed constantly, and therefore the examination of the standards was difficult to fulfil.

4.3 Definitions of *God Redovisningssed* and True and Fair View

To examine the interviewees’ interpretations and definitions of *god redovisningssed* and true and fair view they were asked what the concepts meant to them and why. Moreover, they were asked to describe possible equalities and differences visible between the notions.

4.3.1 What Is *God Redovisningssed* to You and Why?

Kratz claims that *god redovisningssed* is a generally accepted practice among companies and accounting authorities, which Wikner agrees with by referring to *god redovisningssed* as how big public enterprises chose to account and present their economical situations. Moreover, Kratz states that *god redovisningssed* has been a constantly developing concept and to widen its significance companies have always been stretching its limits. Falkman and Hanner argue that *god redovisningssed* previously was a representative practice formed by a qualitative representative group of companies that accounted equally and these practical solutions successively affected the Swedish practice. Further, the recommendations from FAR about how to account were not always accepted and followed by the enterprises, as they were not “suitable”. Consequently, the recommendations followed became practice.

Falkman argues that the importance of *god redovisningssed* started to decrease when true and fair view was introduced in the Swedish accounting law, ÅRL in 1995. Therefore, *god redovisningssed* is no more used in practice among the big companies. Today, *god redovisningssed* is influenced by the accounting authorities according to Hanner and Falkman and they further stress that Skatteverket⁶ founds its judgements heavily on *god redovisningssed*. Falkman means that today, *god redovisningssed* is constituted by the interpretations of the accounting bodies and it is more and more influenced by the IASB. Moreover, Falkman and Kratz are questioning the future of this obsolete concept, which, according to Kratz, has not been discussed in several years in consolidated accounts.

Larsson at SKF claims that *god redovisningssed* should reflect what has happened in reality. The assumption is that when applying to all accounting policies correctly *god redovisningssed* is reflected. As an example she claims new rules where substance over form is reflected as a very important concept. The emphasis of substance over form is to present the real transaction. *God redovisningssed* is the practice developed by big companies in Sweden, according to Walldén. Today it is the accounting bodies like the IASB that creates *god redovisningssed*. *God redovisningssed* is to present a true and fair view. Further it is to follow IFRS and to have a discussion about the interpretations of different details. According to Walldén *god redovisningssed* is also to develop a practice together with other companies when there is not enough support from the regulation. Volvo has not used the expression *god redovisningssed* in the daily work for several years.

4.3.2 What Is True and Fair View to You and Why?

Kratz means that to account according to a true and fair view is to produce a balance sheet and profit and loss account, which shows a true and fair view of the company.

⁶ The Swedish Tax Authority

Furthermore, it describes the true values within the company. Wikner equalises true and fair view with the Swedish translation *rättvisande bild*⁷. He also claims that this concept is based on many interpretations, which can differ between different business areas and enterprises. Falkman discusses the origin of true and fair view when stating that it was created in the Anglo-Saxon/Common Law system, which claims that the companies do not have to follow the recommendations if they can argue for a solution which reflects a “truer and fairer view”. Moreover, he declares that true and fair view was introduced in the Swedish accounting law, ÅRL in 1995 and therefore Falkman argues that true and fair view is attained when following *god redovisningssed*. True and fair view is strongly connected to theoretical principles and the framework.

Hanner has a long discussion about the development of true and fair view and its significance. He argues that in the best of worlds the balance sheet should only be presented according to real values. This equalises with a true value and only works in theory. In practice there are lots of difficulties when valuing assets to their real values. The verifiability in the valuation can not always be ensured. Hanner states that when you account according to the recommendations it will give a true and fair view. When you have done your accounting according to all details in the recommendations, it is very important to analyse the overall picture of the report. Additionally, the notes of the report should be very detailed and thoroughly describe all the different accounting judgments that have been discussed when producing the report. The more you have succeeded with this, the “truer and fairer” view is given.

True and fair view is to give the reader of the report the most correct picture possible, in order to enable the reader to make decisions based on the report, according to Walldén. The information should reflect the reality and its actual occurrence. Moreover, Walldén stresses the importance of the reader’s understanding. Volvo’s first annual report presented in 2005, in accordance with IFRS, contains lots of judgements. Therefore, Walldén questions the completeness of the true and fair view in this report. Larsson equalises true and fair view with *god redovisningssed*, which is in accordance with Walldén’s earlier statement, and Larsson further stresses that it is important to account consequently and logically.

4.3.3 When Comparing *God Redovisningssed* and True and Fair View, Can You See Any Equalities and Differences?

Wikner states that the equality that can be seen is that both concepts are general, practical notions, an opinion that Hanner shares. Further, he highlights it by mentioning that practical notions like framework can be found in both systems. Falkman describes the equality between *god redovisningssed* and true and fair view as the idea of the concepts. Kratz expresses the similarity between the concepts as being the ambition to create a correct picture of the company. Both Larsson and Walldén claim that *god redovisningssed* equalises true and fair view. Further Walldén states that *god redovisningssed* aims to present a true and fair view of the enterprise and its economical issues and today, *god redovisningssed* is defined by the standards of the IASB, and no longer through the accounting practice in companies.

⁷ *Rättvisande bild* is the general accepted Swedish translation of true and fair view. Literally it can be translated as right-looking picture (Aisbitt & Nobes, 2001).

However, Larsson and Falkman also see several differences between the concepts. Firstly, true and fair view is a more general concept as it represents a system that aims to create a complete accounting regulation. Secondly, as the IASB’s standards are very detailed it is hard, almost impossible, to find other solutions than the ones presented in the regulation. Thirdly, *god redovisningssed* is a concept with a decreasing importance, however Falkman states that this is a long-time process as Sweden is a country that traditionally has a German accounting system. Furthermore, Falkman describes that *god redovisningssed* was developed by users’ practice. Consequently, true and fair view is a product of what you have done and *god redovisningssed* is how you are acting. This difference does not create a conflict between the two concepts. According to Kratz, true and fair view aims to present real values, but *god redovisningssed* shows prudent values. He stresses this paradigm change as an important difference between the systems. However, the old Swedish prudence approach is an instinctive way of thinking, for instance when valuing assets according to true values, consequently auditors still tend to recommend the most prudent of the true values, states Kratz.

If there are differences between the concepts, it depends on how the concepts are interpreted, according to Wikner. When comparing the Swedish system with IFRS, there are conflicts about how to report. In the analysis of each specific standard, differences between the systems can be found and discussions can be raised. Consequently, there are not that many discussions when defining the concepts in general. The difference according to Hanner is that true and fair view is a more complete concept as it contains the overall picture. *God redovisningssed* indicates only the details and how to account them, not the overall picture. Further differences are the accounting of IFRS, which reports in accordance with true values and that a true and fair view is given when all details are presented. Consequently, the companies have to report everything, which differs from the former Swedish accounting tradition where the companies presented the minimum of what was required. Hanner comments that Swedish companies do not like to show that much of themselves, as their competitors also read their reports. Moreover, it costs more time and money to produce a more extensive report.

4.4 The Position of True and Fair View in Swedish Accounting

This section treats three questions that concern the impact of true and fair view on the Swedish accounting system and the position of true and fair view in Sweden today.

4.4.1 Do You Think That True and Fair View Is an Equal Support within Accounting Regulation as *God Redovisningssed* Has Been? Why?

Wikner sees *god redovisningssed* as a less flexible concept, which is more controlled by non-written rules based on practical accounting. IFRS and its true and fair view are more ruled by principles and there is less room for interpretations. Wikner thinks it is positive to be able to interpret. Furthermore, the standards of the IASB are more specified in detail and Wikner also claims that IFRS, due to the harmonisation of the systems, is approaching US GAAP and its principles. This development will give less space for interpretations, as US GAAP constitute a more rule-based system.

Hanner has a different point of view as he states that true and fair view basically gives the same detailed information as *god redovisningssed*. However, *god redovisningssed*

does not give the overall picture. There is a difference as ÅRL is a basic law that does not inform how to account in detail. Furthermore ÅRL has always required that you should account in accordance with a true and fair view.⁸ Hanner concludes that what is different is that IFRS and its true and fair view provide a more overall picture than ÅRL and *god redovisningssed*.

Falkman, Kratz and Larsson stress that there are no companies, which discuss the significance of true and fair view, as the focus lies on practical accounting solutions and the interpretation of the standards. Kratz’s explanation to this is that IFRS is a very new system. However, he argues that true and fair view, as a concept, probably will be taken into consideration in the future. In contrast, according to Falkman there are no possibilities for accounting practice in the new system as IFRS contains very detailed standards. As true and fair view is a more exhaustive concept, Falkman perceives this concept as a good substitute to *god redovisningssed*.

The representatives of the companies, Walldén and Larsson, have two different opinions in this question. Larsson argues that when *god redovisningssed* was up to date it was a very useful concept as it reflected Swedish accounting practice. Today when the companies follow IFRS, which is a very detailed regulation, there is not much space for interpretation and practice to develop. Thus, Larsson claims that true and fair view is not the same practical support as *god redovisningssed* was. In contrast, Walldén thinks true and fair view will be an equal support as *god redovisningssed*. However, today the market is still in the transformation phase and it is difficult to speculate in the future. *God redovisningssed* will merge with true and fair view, which will mean to follow standards, concludes Walldén.

4.4.2 Is There a Swedish Practice About True and Fair View? If Yes, Does It Diverge from the IASB’s Interpretation?

Yes, according to Hanner, when presenting additional information there is a practice about true and fair view. He further states that the Swedish true and fair view in a technical point of view is the same as true and fair view in the IASB, though there are more details in the standards of the IASB.

No, there is no Swedish practice of true and fair view, argue Falkman, Larsson and Kratz. An explanation is that IFRS contains detailed standards and therefore the space to develop a practice is restricted (Falkman, Larsson). Moreover, Falkman claims Sweden to be a small country with a very finite accounting debate. Thus, the Swedish companies implement the international rules into their accounting. Larsson explains that if SKF wants to affect the standards of the IASB, they can try to influence the body during the exposure draft period. Kratz states most of the interpretations of the standards are to be conducted between the auditing companies and between the consolidated accounts. However, he stresses that questions of greater implication are solved on an international basis between auditing firms and by the advisory body IFRIC⁹. Today, there is no Swedish accounting body that discusses IFRS practice, but Kratz thinks that there will be an authority with the assignment to control and discuss

⁸ True and fair view was implemented in the Swedish Accounting Act in 1995 (authors’ comment).

⁹ The role of the International Financial Reporting Interpretations Committee (IFRIC) is to review accounting issues that can be wrongly interpreted when there is a lack in authoritative guidance (Schipper, 2005:103).

the practice of true and fair view in the future. In addition, Börsövervakningspanelen¹⁰ always criticises the financial reports, which also develops a practice among the Swedish public companies.

4.4.3 The Framework of the IASB Aims to Ensure a High Degree of Transparency and Comparability. How Will Transparency and Comparability Be Affected by the Change from *God Redovisningssed* to True and Fair View?

Wikner and Falkman state that the transformation period tends to give less transparency and comparability, as there are great differences between the companies regarding the amount and quality of the economical information given in, for example, the annual reports. After this transformation period, when the companies have had time to adjust to the new standards, the transparency will be higher as the companies have to present a more informative report in order to satisfy the investors.

As there is less space for interpretations and alternatives within IFRS, Hanner claims that the transparency and comparability have started to increase. Additionally, he thinks that it will be improved even more when the transformation period is ended in 10 to 15 years. Some valuations have already enhanced, for example the reporting of financial assets. It was a system easy to manipulate, as the price of acquisition had to be stated, declares Hanner. Today it is required to present the true value, which gives increased transparency and comparability. According to Larsson and Kratz transparency and comparability have augmented between countries as the companies use the same international regulation. In contrast, Kratz does not see an increase of transparency and comparability between the Swedish companies as the former Swedish regulation also presented good transparency and comparability. Furthermore, Kratz claims that transparency and comparability between the Swedish enterprises increased as early as when the recommendations of RR were implemented in Sweden.

For the general reader without any business or accounting knowledge, Larsson finds that the transparency has decreased as the financial reports are more detailed and contain more information. On the contrary, the well-experienced reader gets an increased transparency due to the new standards. Naturally, the comparability has increased, as there is less space for interpretations. Larsson also thinks that the standards demand a huge amount of details and information, which sometimes borders on company secrets. Walldén states that as IFRS is compulsory for all consolidated accounts of public companies in the European Union, the comparability between companies will augment. Moreover, she argues that there are differences between countries of how to implement IFRS, which affect the comparability negatively. Interpretation and analysis of the standards of the IASB are necessary when using this system, which can have a negative impact on the transparency and the comparability. Further, Walldén stresses that the accounting has become more subjective, as it is based on many new judgements. For instance, the valuation of assets is based on judgements and could have been wrongly interpreted in the standards. This can have great effects on the content of the report.

¹⁰ The Swedish Supervision Panel of the Stock Exchange.

4.5 Has True and Fair View Replaced *God Redovisningssed* or Is *God Redovisningssed* Still Used in Practice?

Finally, the interviewees were asked whether true and fair view has replaced *god redovisningssed* or if *god redovisningssed* still is used in practice.

God redovisningssed does neither exist in theory, nor in practice, among the Swedish consolidated accounts, according to Kratz. Larsson clearly argues that true and fair view has replaced *god redovisningssed* and that *god redovisningssed* is not used in practice. Falkman follows these opinions as he claims that *god redovisningssed* is about to disappear and is no longer used among companies, which account according to IFRS. As all time is focused on each standard and its details, the concept true and fair view is not yet thoroughly used or discussed in practice. Falkman further states that the “perfect solution” according to theory does not necessarily have to be the best solution in practice. In contrast, Hanner argues that there is no conflict between the two concepts. *God redovisningssed* states details, while true and fair view states the details as well as the overall picture. Consequently, true and fair view complements and further develops the accounting system. As Walldén thinks that *god redovisningssed* has merged with true and fair view, she claims that the true and fair view expressed in IFRS is the one to follow.

Wikner sees a conflict as big Swedish companies have been used to be able to affect accounting norms by their practical accounting solutions. This is no longer possible, as IFRS is a more detail-based system that gives less room for interpretations. According to Wikner the concept *god redovisningssed* has since the beginning of the 21st century more or less disappeared. This is due to the recommendations of RR and its adaptation to international standards, which have been developed during the 1990’s. As *god redovisningssed* is a concept with a long history in the Swedish accounting system, which has had great impact during the years, it is hard to just let it go. Wikner claims that *god redovisningssed* might still affect the accounting unconsciously although everyone is aware of that the concept is out of date. In addition, Wikner argues that there are differences between the big and medium-sized companies in their adaptation to the new system.

5. Analysis

In the analysis the problem definition as well as the sub questions of the thesis are analysed by the theoretical and empirical findings. To ease the understanding of the examination the analysis is structured in accordance with the thematic areas introduced in the empirical findings. At the end of the analysis the conclusion of the problem definition is given with support from the sub questions.

5.1 General Comments about the Transformation to the Standards of the IASB

As the EU for many years has been seeking a harmonisation, thus a common market, all countries are to follow the Fourth and Seventh Directives about financial reporting. Since Great Britain entered the union, true and fair view and the Anglo-Saxon perspective have strongly affected the accounting of the EU. The IASB, which is the standard setter of the EU, is also clearly dominated by the Anglo-Saxon countries, according to Flower (2002). Swedish accounting and its Continental tradition has been influenced by this perspective since the Swedish entrance in the EU in 1995. This influence was increased through the recommendations of RR, which to a great extent were translations and interpretations of the international standards of the IASC, today the IASB (RR, 2006). It is also experienced in the professional accounting world that the great change in Sweden occurred in the 1990's. Accordingly, the interviewees Kratz, Hanner and Larsson stress that the change from Swedish principles to IFRS has not been a big difference, as the change in the Swedish accounting system occurred in the 1990's when RR started to produce recommendations, influenced by IAS. Consequently, the companies have adapted to the standards of the IASB successively, due to the work of RR.

Hanner claims that the Swedish accounting system has shifted from a pragmatic world to a more rule-based system. This highlights the shift from the Continental tradition to the Anglo-Saxon, as the Swedish accounting legislation only provided a framework and further referred to practice. Moreover, the Anglo-Saxon accounting is strongly affected by the reporting practice developed by the auditors (Flower, 2002:46). This impact can state an explanation to Kratz's and Larsson's discussion about the implementation of IFRS where they claim that the space for interpretations has decreased and that the flexibility of interpretations in the Swedish system no longer is possible. Further, Larsson states that IFRS's extensive guidance of accounting contributes to a clearer regulation.

Wikner and Hanner claim that big companies as Volvo and Ericsson have adapted very well to the new accounting system, IFRS and its true and fair view, by putting resources into the transformation. The representatives of SKF and Volvo also conclude that the implementation of IFRS went pretty well, even though Walldén stresses that the transformation demanded a lot of time and involvement. Larsson adds that SKF in the beginning thought that the transformation would cause greater changes than it finally did.

5.2 Definitions of *God Redovisningssed* and True and Fair View

In order to answer the problem definition of the thesis, it is important to clarify the significances of *god redovisningssed* and true and fair view. There are no general definitions of them and when searching for their meanings, theory and empirical findings reveal diverse interpretations of the notions, which reflect different aspects of the concepts.

5.2.1 Definitions of *God Redovisningssed*

In the sections 3.4.1 and 4.3.1 the theoretical and empirical interpretations of *god redovisningssed* are exposed. The Swedish accounting concept *god redovisningssed* has created a solid base for accounting and regulations since it was implemented in the Swedish Accounting law in 1976. In the preparations of the Accounting Act of 1995 *god redovisningssed* is specified as prevailing practice within accounting as well as recommendations from accounting bodies, furthermore it is stated that in occasional situations it can be necessary to diverge from these advice in order to present a true and fair view (Artsberg, 2003). However, Blake et al (1997) as well as other sources like FAR (2006) and Gustafson (2006) argue that *god redovisningssed* arises when an accounting recommendation has been made by a recognised authoritative body, and this method is widely used and applied by a large and representative amount of companies. Most of the interviewees are in accordance with Blake et al even though they stress the importance of the companies' influence. For instance, the recommendations from FAR about how to account were not always accepted. Consequently, only the recommendations followed became practice. More deeply, Gustafson develops that the accounting method applied, *god redovisningssed*, is a result of assumptions, definitions and principles of the state, accounting bodies and companies, which also have been affected by political, economical and cultural interests.

The descriptions of *god redovisningssed* give a quite unified interpretation of the concept, but is it still used in accounting practice in consolidated accounts of public companies in Sweden today? According to the legislation, these companies should follow IFRS, consequently, *god redovisningssed* is no longer to be followed. The interviewees from the auditing firms are questioning the future of the concept, which they define as obsolete as it has not been discussed in several years in consolidated accounts. A statement that Walldén confirms with the fact that Volvo has not used the expression *god redovisningssed* in the daily work for several years. Falkman stresses that the importance of *god redovisningssed* started to decrease when true and fair view was introduced in ÅRL in 1995. Furthermore, Wikner and Hanner claim that big companies as Volvo and Ericsson have adapted very well to the new accounting system, IFRS and its true and fair view. To conclude, *god redovisningssed* is not used in accounting practice in Swedish consolidated public companies today. In contrast, Walldén describes that Volvo met other big companies in Sweden, in order to discuss how to account and interpret the standards of the IASB, which could be equalised with the practice of *god redovisningssed*. Further, it is interesting that both Larsson and Walldén, the representatives of SKF and Volvo, discuss a developed meaning of *god redovisningssed*. They claim that the standards of the IASB and its basic valuations like true values are implemented in *god redovisningssed*, thus, the concept develops together with new recommendations and practice and is in this perspective still alive.

5.2.2 Definitions of True and Fair View

The EU’s Fourth Directive declares that the audited annual report should give a true and fair view of the company’s assets, liabilities, financial position and profit and loss. The concept originates from Great Britain (Schaub, 2005). There are many variations and explanations of true and fair view and Ekholm and Troberg (1998) claim that not even norm-setters within accounting are able to define the meaning of the concept. In fact, Ekholm and Troberg (1998) as well as Wikner maintain that its application varies among the EU countries as well as among accountants within a country, which is clearly seen in the theoretical and empirical findings as there are many different aspects of true and fair view presented. Though, a general but not thorough interpretation of the concept can be distinguished.

Several theoretical sources, like Walton (1993), Smith (2000) and Flower (2002), describe true and fair view as generally accepted accounting principles (GAAP). Furthermore, Smith (2006) argues that true and fair view should identify the reality, which is a statement confirmed by Kratz, Hanner and Walldén, who stress the presentation of the company’s real values. Walldén also emphasises a practical aspect when mentioning the importance of the reader’s ability to make decisions based on the report.

Ekholm and Troberg (1998) state that reporting in accordance with a true and fair view is to provide unbiased information about a company’s essential values. Further, they claim that true and fair view can be seen as a dynamic process rather than a static state, which is in accordance with Alexander’s (1993) opinion that true and fair view is an indefinable and flexible construct. True and fair view has many meanings and significances depending on different cultural, legal and accounting attitudes as well as a symbolic and political role. The political perspective can be explained by the fact that accountants are trying to defend and enhance their professional status (Alexander (1993), Smith (2006), Walton (1993)).

5.2.3 Equalities and Differences between *God Redovisningssed* and True and Fair View

To further develop the definitions of *god redovisningssed* and true and fair view, the equalities and differences will be presented in order to found a base for the answering of the third sub question: Is true and fair view a good substitute for *god redovisningssed* according to auditors and companies?

All the interviewees of the auditing firms state that both concepts are general, practical notions, while Larsson and Walldén emphasise the concepts’ full equalisation. An example that highlights these opinions is Flower’s (2002) interpretation of true and fair view in Great Britain, which means that the individual accountant is justified to follow accepted accounting practice in areas not covered by the law or by standards, which is equal to the significance of *god redovisningssed*. Another similarity that can be seen, according to Gustafson (2006), Alexander (1993) and Walton (1993), is the political and cultural perspectives that influence both of the concepts.

There are several differences noticed by the interviewees. Most important, Hanner, Falkman and Larsson state that true and fair view is a more complete concept than

god redovisningssed as true and fair view contains the overall picture, while *god redovisningssed* only indicates the accounting details. This is also stressed by the theoretical research of Christiansen and Elling (1994), which describes that true and fair view focuses on the overall picture, while the focus of *god redovisningssed* lies on the method. Consequently, the judgement of whether the financial information gives a true and fair view is based on the final product and not on accounting details (Artsberg, 2003). The method focus on *god redovisningssed*, as well as the process orientation of the concept found by Christiansen and Elling (1994), can further be verified through the statement of Falkman, as he says that *god redovisningssed* was developed by user’s practice. Falkman’s conclusion further emphasises the process orientation of *god redovisningssed* as well as the product orientation of true and fair view: True and fair view is a product of what you have done and *god redovisningssed* is how you are acting. In contrast to the company focus of *god redovisningssed*, true and fair view is said to focus on the user of the information accounted. Artsberg (2003) as well as Walldén at Volvo stress the importance of the reader’s understanding as a cornerstone of true and fair view, as well as it constitutes a clear difference to *god redovisningssed*.

The two concepts have been developed in two different accounting traditions, the Anglo-Saxon system and the Continental system (Smith, 2006). Therefore, the notions have different perspectives, which Kratz underlines as he states that true and fair view aims to present real values, but *god redovisningssed* shows prudent values. Another consequence of the shift of accounting traditions, and also a clear difference of the concepts, is that the companies in accordance with a true and fair view have to report everything, which differs from the former Swedish accounting tradition where the companies presented the minimum of what was required, according to Hanner.

5.3 The Position of True and Fair View in Swedish Accounting

To examine whether true and fair view has replaced *god redovisningssed* it is crucial to investigate the position of true and fair view in Swedish accounting. Has true and fair view enlarged its position by developing a practice and do auditors and companies use the concept? Furthermore, is it possible for true and fair view to replace *god redovisningssed*? The following sections will analyse the true and fair view within Swedish accounting.

5.3.1 Is True and Fair View a Good Substitute to *God Redovisningssed* According to Auditors and Companies?

According to the discussion in section 5.2.3 both equalities and differences between *god redovisningssed* and true and fair view can be seen. The clearest differences are that true and fair view gives an overall picture of the accounting and it also focuses on the user, in contrast to *god redovisningssed*, which focuses on the company. It provides a good foundation to the next analysis of whether true and fair view is a good substitute to *god redovisningssed* according to auditors and companies. Two sections of the empirical findings as well as theoretical findings will be discussed in order to answer this question. The two empirical sections are section 4.4.1, which treats whether true and fair view is an equal support as *god redovisningssed* within accounting and 4.4.3, which considers whether transparency and comparability have been affected in the transformation of the two concepts.

The representatives of Volvo and SKF have different perspectives. Walldén thinks true and fair view will be an equal support as *god redovisningssed*, because *god redovisningssed* will merge with true and fair view, which will mean to follow standards. In contrast, Larsson does not see true and fair view as the same practical support as *god redovisningssed*, because the standards of the IASB are more detailed and give no space for interpretations. On the contrary, Ekholm and Troberg (1998) highlight the importance of true and fair view when describing that it is not possible that rules and recommendations cover all aspects in accounting and therefore true and fair view is always relevant. A statement that is in accordance with Falkman, who sees true and fair view as a more exhaustive and detailed concept and therefore also as a good substitute to *god redovisningssed*. However, not everyone finds true and fair view as an important concept, according to Ekholm and Troberg (1998). For instance, Forker and Greenwood (1995) claim true and fair view to be stated only as a symbolic significance for the British accounting practice, because the concept has no identifiable characteristics and therefore little operational meanings. Today some people in Sweden think that true and fair view has a narrow importance, like Falkman, Larsson and Kratz, who claim that there has been no focus on true and fair view as the companies have been struggling with the interpretations of the new standards. Also Walldén questions the completeness of the true and fair view today, as Volvo’s first annual report presented in 2005, in accordance with IFRS, contains lots of judgements. Kratz concludes that the concept probably will be taken into consideration in the future.

In order to investigate if true and fair view is a good substitute to *god redovisningssed* it is important to consider how transparency and comparability have been affected. The aim of the EU is to ensure a high degree of transparency and comparability of financial information ((EC) no 1606/2002), a purpose that also the IASB highlights in its objectives (Flower, 2002). In the empirical findings there are four different perspectives presented. Firstly, the efforts of the EU and the IASB to increase transparency and comparability are confirmed by Hanner as he claims that the transparency and comparability have started to augment, because there is less space for interpretations and alternatives within IFRS. Today it is required to present the true value, which gives increased transparency and comparability. Secondly, Walldén claims that the comparability between companies will augment. However, Wikner and Falkman state that the transformation period tends to give less transparency and comparability. After this transformation period, when the companies have had time to adjust to the new standards, the transparency will be higher as the companies have to present a more informative report in order to satisfy the investors. Thirdly, Kratz does not see an increase of transparency and comparability between the Swedish companies as the former Swedish regulation also presented good transparency and comparability. Finally, Larsson differentiate between the general and the well-experienced readers. On the one hand, for the general reader without any business or accounting knowledge, the transparency has decreased as the financial reports are more detailed and contains more information. On the other hand, the well-experienced reader gets an increased transparency due to the new standards.

Obviously, there are more differences than similarities between *god redovisningssed* and true and fair view stated in 5.2.3. Are there still possibilities for true and fair view to be a good substitute to *god redovisningssed* according to auditors and companies? Several of the interviewees argue that true and fair view has not been taken into

consideration yet. Consequently, they can not state whether true and fair view is an equal support as the concept *god redovisningssed*. Falkman sees true and fair view as a good substitute, while Walldén claims that true and fair view is an equal support as *god redovisningssed*. However, Larsson does not see true and fair view as the same practical support as *god redovisningssed*. Simultaneously, there are theorists promoting as well as questioning the importance of true and fair view. In general, the transparency and comparability have started to augment or will augment because there is less space for interpretations and alternatives within IFRS, according to the interviewees. A prevailing opinion among the interviewees as well as in theory is that the most important difference between *god redovisningssed* and true and fair view is the overall picture given by the true and fair view, a fact that is also seen as an advantage of the latter notion. In conclusion, there are many aspects of if true and fair view is a good substitute to *god redovisningssed* or not according to auditors and companies. There are some indications that it is a good substitute, however the findings do not give enough support for this statement.

5.3.2 What Is the Swedish Practice Today Concerning True and Fair View?

The first sub question in the problem formulation asks what the Swedish practice is today concerning true and fair view. Alexander (1993) stresses the fact that true and fair view has many meanings and significances depending on different cultural, legal and accounting attitudes. Also within a country these differences are obvious. For instance, Nobes and Parker (1991) investigated directors’ and auditors’ use of true and fair view in Great Britain. The majority of the directors took no specific actions to guarantee truth and fairness. In contrast, auditors continued to support true and fair view and its requirement and they also used it the most in practice (Parker and Nobes, 1991).

True and fair view was implemented in Swedish regulations in 1995 (ÅRL) and according to Hanner, there is a practice about true and fair view when presenting additional information. He further states that the Swedish true and fair view in a technical point of view is the same as true and fair view in the IASB, though there are more details in the standards of the IASB. On the contrary, Falkman, Larsson and Kratz argue that there is no Swedish practice of true and fair view. An explanation is that IFRS contains detailed standards and therefore the space to develop a practice is restricted (Falkman, Larsson). Another point of view when considering the Swedish practice of true and fair view is the Swedish companies’ implementation of international rules into their accounting. This can be explained by Falkman’s statement about Sweden considered to be a small country with a very finite accounting debate, as well as Larsson’s and Kratz’s argument that there is no Swedish authority that controls and discusses the practice of true and fair view. Finally, Falkman, Kratz and Larsson stress that there are no companies, which discuss the significance of true and fair view, as the focus lies on practical accounting solutions and the interpretation of the standards. This is confirmed by Walldén and Larsson when they are describing the work with the implementation. The standards were divided in the working groups within each company and the interpretations were later discussed with the auditing firm. Kratz’s explanation to this is that IFRS is a very new system. However, he argues that true and fair view, as a concept, probably will be taken into consideration in the future.

In conclusion, according to most of the interviewees, the Swedish companies working with the standards of the IASB today do not take true and fair view into consideration when preparing financial reports. Though, Hanner claims there is a practice of true and fair view regarding financial additional information, the majority of the interviewees can not see a practice about true and fair view.

5.4 Has True and Fair View Replaced *God Redovisningssed* or Is *God Redovisningssed* Still Used in Practice?

From the beginning of 2005, the public consolidated companies and other enterprises with public interest in Sweden account in accordance with the standards of the IASB. This means a complete transition to international regulation, and thus a definite break with Swedish accounting rules, consequently an explicit break with the concept *god redovisningssed* (Bengtsson, 2005). Is this break also the truth in practice? In the Continental accounting the data and financial reports are permeated by secrecy and a prudent way of accounting (Blake et al 1997), which is a tradition that can still be alive in Swedish practice according to some of the interviewees. For instance, Kratz states the old Swedish prudence approach as an instinctive way of thinking. Consequently, auditors still tend to recommend the most prudent of the true values. Wikner also claims that *god redovisningssed* might still affect the accounting unconsciously although everyone is aware of the concept being out of date.

There are clear opinions about whether true and fair view has replaced *god redovisningssed* or if *god redovisningssed* is still used in practice. Kratz, Larsson, Falkman and Wikner state there is no use of the concept *god redovisningssed* among Swedish public consolidated accounts any longer. *God redovisningssed* does neither exist in theory, nor in practice, according to Kratz. Larsson clearly argues that true and fair view has replaced *god redovisningssed* and that *god redovisningssed* is not used in practice. Moreover, Wikner says that since the beginning of the 21st century the concept *god redovisningssed* has more or less disappeared. Falkman follows these opinions as he claims that *god redovisningssed* is about to disappear and is no longer used among companies, which account according to IFRS.

Further, Hanner and Walldén have other perspectives of the question. Firstly, Hanner sees no conflict between the two concepts, as true and fair view complements and further develops the accounting system. Secondly, as Walldén thinks that *god redovisningssed* has merged with true and fair view, she claims that the true and fair view expressed in IFRS is the one to follow. In conclusion, they claim true and fair view to be the notion to follow, but *god redovisningssed* is still a part of the new concept.

As discussed before there are some interviewees who state that even though *god redovisningssed* does not exist, true and fair view has not been implemented in practice. For instance, Wikner argues that it will take time before the new recommendations are fully implemented and Falkman concludes that as all time is focused on each standard and its details, the concept true and fair view is not yet thoroughly used or discussed in practice.

5.5 Conclusion

Today, the Swedish practice concerning true and fair view is not taken into consideration by most of the interviewees when preparing financial reports and therefore no practice about true and fair view can be seen. This is a result of the focus on each standard and its details. Consequently, the concept true and fair view is not yet thoroughly used or discussed in practice.

God redovisningssed is not used in accounting practice in Swedish public consolidated companies today, which is a conclusion that is in accordance with the legislation as well as the interviewees. However, there are some aspects stressed by the interviewees, which show a possible impact of *god redovisningssed* on today's accounting. Wikner and Kratz claims that *god redovisningssed* might still affect the accounting unconsciously. Additionally, Hanner, Walldén and Larsson, argue that *god redovisningssed* is still alive as the concept develops together with new laws and recommendations.

The importance of true and fair view has been promoted as well as questioned in theory, a phenomenon that can be seen also in the Swedish accounting. Some of the interviewees see true and fair view as an equal support as *god redovisningssed*, others do not. In general, the transparency and comparability have started to augment or will augment, according to the interviewees. It is stated in the theoretical research as well as in the empirical findings that true and fair view gives an overall picture, which also is seen as an advantage of the concept. In conclusion, there are some indications that true and fair view is a good substitute to *god redovisningssed*. However, the findings do not give enough support for this statement.

Has the IASB's true and fair view replaced the Swedish concept *god redovisningssed*? All the interviewees claim that IFRS and the true and fair view are fully implemented in the public consolidated accounts in Sweden. Consequently, the concept *god redovisningssed* is not used in accounting practice in these companies today. As true and fair view takes both the details as well as the overall picture into consideration, it is a wider concept than *god redovisningssed*. Further, true and fair view has not been thoroughly used or discussed among the users. Thus, true and fair view has replaced *god redovisningssed* in theory, but it has not filled the void in practice.

5.6 Research Suggestions

This thesis has been delimited to examine how big companies have adapted to the standards of the IASB and its true and fair view. According to some of the interviewees, clear differences in the implementation of IFRS can be seen between medium-sized companies and big companies. Therefore, it could be interesting to research how these smaller companies have succeeded with the implementation of IFRS and its true and fair view.

Schipper (2005) argues that both research and accounting education will be affected by the implementation of IFRS as more judgements and estimates will be required when deciding fair values. Thus, a different sort of expertise than that of traditional education will be needed. Schipper's statement is revealing a new aspect and it would be interesting to investigate if there are tendencies of a changed expertise.

There are researches that examine whether true and fair view equalises the Swedish translation *rättvisande bild*, which was founded in the regulations of ÅRL in 1995. Nevertheless, a suggestion of further research is to study if the newly implemented true and fair view of the IASB is the same as the Swedish translation *rättvisande bild*.

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