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IAS 41 and the forest industry

*- A study of the forest products companies'
perception of the IAS 41 today*

Kandidatuppsats / Bachelor Thesis
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Vårterminen 2005



Bachelor's Thesis in Business Economics at the School of Economics and Commercial Law at Gothenburg University

Title: IAS 41 and the forest industry - a study of the forest products companies' perception of the IAS 41 today

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Abstract

Background and Problem – Europe today is facing an accounting standardization movement, in an attempt to harmonize and internationalize the accounting systems. One step in the process is the implementation of the IAS/IFRS on January 1st 2005. “IAS 41 Agriculture” covers the primary sector and introduces a fair value model to agricultural accounting. IAS 41 will particularly impact those agricultural activities where the income-producing biological assets are expected to have economic lives that stretch beyond one accounting period. When all of the above is happening to the forest product companies it is a great opportunity to conduct a study of what the companies really think about the IAS 41 today. This paper aims to study;

What is the forest products companies' perception of the IAS 41 today?

Purpose – The purpose of this thesis is to examine what the forest products companies really think about the IAS 41. The secondary purpose is to see what the firms and the auditor think is valued most of reliability and relevance.

Delimitation - The study is delimited to conducting interviews with forest product companies on the stock market in Sweden.

Method - The strategy used in this study was interviews which is a qualitative analyze method. The study had a descriptive approach, since it concentrates on trying to describe the actual situation around the problem rather than interpreting and solving it. Primary data was gathered through interviews with target persons that possess the demanded knowledge and experience concerning the problem area. Three representatives for the forest products companies and one auditor were interviewed. The kind of interviews used was the semi-structured, with open questions exclusively.

Conclusions - The common opinion is that IAS 41 demands a lot of extra work and that it is harder to present the value of the forest now then prior to the IAS 41. Further, that it is hard to establish the fair value. The valuing method used is exclusively discounted net cash flow. The calculation is done by the following 100 years. The companies are still discussing how to handle the IAS 41 in their financial reports. The changes in value effects the result and makes it vary more, and the companies do not know how to work with that.



Table of Contents

ABSTRACT	2
TABLE OF CONTENTS	3
CHAPTER 1 INTRODUCTION	6
1.1 BACKGROUND	6
1.2 DISCUSSION OF THE PROBLEM	7
1.3 DEFINITION OF THE PROBLEM	8
<i>WHAT IS THE FOREST PRODUCTS COMPANIES' PERCEPTION OF THE IAS 41 TODAY?</i>	8
1.3.1 PURPOSE	8
1.3.2 DELIMITATIONS	8
1.4 THESIS OUTLINE	9
1.5 SUMMARY	10
ABBREVIATIONS	11
CHAPTER 2 METHODS	12
2.1 AN INTRODUCTION TO METHODS	12
2.2 QUALITATIVE AND QUANTITATIVE METHOD	12
2.3 RESEARCH APPROACH	13
2.4 RESEARCH DESIGN	13
2.5 DATA COLLECTION	14
2.6 SOURCE OF INFORMATION	14
2.6.1 PRIMARY SOURCES	14
2.6.2 SECONDARY SOURCES	14
2.7 THE INTERVIEWS	15
2.7.1 SELECTION	15
2.7.2 INTERVIEW APPROACH	15
2.8 SOURCES OF ERROR	16
2.8.1 VALIDITY	16
2.8.2 RELIABILITY	17
2.8.3 OBJECTIVITY	18
2.8.4 CRITICISM OF THE SOURCES	18
2.9 SUMMARY	18
CHAPTER 3 THEORETICAL FRAMEWORK	20
3.1 BACKGROUND	20
3.2 THE IASC AND THE IASB	20



3.3 FRAMEWORK	21
3.4 QUALITATIVE CHARACTERISTICS	22
3.5 IAS 41 AGRICULTURE	23
3.5.1 COVERAGE OF IAS 41	24
3.5.2 RECOGNITION OF AGRICULTURAL ASSETS	24
3.5.3 MEASUREMENT OF FAIR VALUE.....	25
3.5.4 ALTERNATE MEASUREMENTS	25
3.5.5 DISCLOSURE.....	25
3.6 IAS 41 IN THE FINANCIAL STATEMENTS	26
3.6.1 BALANCE SHEET.....	26
3.6.2 INCOME STATEMENT	26
3.7 SUMMARY	27
<u>CHAPTER 4 EMPIRICAL STUDIES</u>	28
4.1 THE COMPANIES	28
4.2 THE INTERVIEWEES	29
4.3 THE INTERVIEWS	29
4.3.1 BACKGROUND.....	29
4.3.2 APPROACH	30
4.3.3 CONSEQUENCES	30
4.3.4 QUALITATIVE CHARACTERISTICS	32
4.3.5 COMPLEX OF PROBLEMS.....	34
4.4 THE INTERIM REPORT JANUARY 1ST TO MARCH 31ST 2005	35
4.4.1 HOLMEN.....	35
4.4.2 SCA	35
4.4.3 SVEA SKOG	36
4.5 SUMMARY	37
<u>CHAPTER 5 ANALYZE</u>	38
5.1 THE IMPLEMENTATION OF IAS 41	38
5.1.1 BACKGROUND.....	38
5.1.2 APPROACH	38
5.1.3 CONSEQUENCES	39
5.1.4 QUALITATIVE CHARACTERISTICS	40
5.1.5 COMPLEX OF PROBLEMS.....	41
5.2 THE INTERIM REPORT JANUARY 1ST TO MARCH 31ST 2005	42
5.3 SUMMARY	43
<u>CHAPTER 6 CONCLUSION</u>	44
6.1 CONCLUSIONS	44



6.2 SUGGESTIONS FOR FURTHER RESEARCH	45
6.3 SUMMARY	46
<u>LIST OF REFERENCE.....</u>	<u>47</u>
<i>LITERATURE</i>	<i>47</i>
<i>INTERNET</i>	<i>48</i>
<i>ARTICLE</i>	<i>49</i>
<i>STUDENT THESIS</i>	<i>49</i>
<i>FINANCIAL REPORT</i>	<i>50</i>
<i>INTERVIEW</i>	<i>50</i>
<u>APPENDIX 1 IFRS/IAS STANDARDS</u>	<u>51</u>
<u>APPENDIX 2 PRIMARY LETTER FOR INTERVIEWS.....</u>	<u>52</u>
<u>APPENDIX 3 COMPANY INTERVIEW QUESTIONS.....</u>	<u>53</u>
<u>APPENDIX 4 AUDITOR INTERVIEW QUESTIONS.....</u>	<u>55</u>



Chapter 1 Introduction

In this chapter, the background will be described. It will give the reader a brief survey of the problem of this thesis, as well as an understanding of the main objective underlying it. In order to place the individual chapters in a larger context, an outline will be provided.

1.1 Background

Nations in Europe share a bond through the European Union; however, the countries are each unique because of their different histories and cultures. Judiciary systems, as well as financial systems, are dissimilar from one country to another. Further more, accounting standards differ depending on where in Europe business is conducted. Recently, an accounting standardization movement has swept over Europe in an attempt to harmonize and internationalize accounting systems. (Nobes 1992). One reason for this movement is the arising number of multinational groups and the holding of shares across national borders (Epstein 2003). For the users of the financial reports working out of several countries there was a need for international comparability in accounting issues. Further reasons for a single set of rules are the idea of promoting competitiveness and the decrease in investment risk resulting in reduced cost of capital for companies (Fuller 2004).

One step is the implementation of the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) on January 1st 2005. The Minister Council of the European Union accepted in 2002 the IAS-2005 which states that all companies listed on the stock exchange has to compose their financial reports according to the new set of standards (iasb.org). Regarding the impact of the implementation, it is clear that there is not only a difference between various sectors within the economy, but also a difference between countries. The differences may depend on the similarities between IAS/IFRS and existing national rules (Fuller 2004). In order to adapt to the new sets of rules everyone effected had to go through a great deal of consideration and preparation before they were ready to take on the new standards (Axelman 2002).

An example of the effects of the new standards is the forest products companies in Sweden. Because of one new set of rules, one forest products company in Sweden doubled the value of their forest properties in one single year (Svensson 2004). If the values in the balance sheet rise, the equity increases with the same amount. Several ratios are effected by this change. One of the down sides is that the companies faces a great risk when the changes in value must be included in the income statement (Svensson 2004). The year end result is effected by the changes in value, and the companies are troubled (iasb.org). In January, the south of Sweden suffered enormous amount of damage as a result of a great storm. The forest owners, who in December had to value their forest land



to the fair value, now had to re-value their damaged forest. The changes in value must be accounted for in the income statement and the result will be lower (Svensson 2004).

International Accounting Standard 41, "IAS 41 Agriculture" covers the primary sector and introduces a fair value model to agricultural accounting. IAS 41 will particularly impact those agricultural activities where the income-producing biological assets are expected to have economic lives that stretch beyond one accounting period. This will be the case for consumable biological assets such as trees that will be logged and for bearer biological assets such as a grape wine that bears fruit but which it self will not become agricultural produce (iasb.org).

1.2 Discussion of the Problem

The adaptation of the new set of rules has effected the European companies in a number of ways. From the forest products companies' point of view, the greatest effect is that the new standard regulate how they must value their forest property. Prior the IAS 41, the companies valued their forest properties to its cost, but according to the IAS 41 a biological asset must be valued to its fair value (iasb.org). Generally in Sweden, the new set of rules requires more work, since the outlines of all the standards are more specific than the national standards. Another reason for the increase of the workload is the increased requirement on disclosures (Axelman 2002). The pressure on the companies with biological assets increases because of the demand of fair value (Svensson 2004). The standard regulates for instant how the valuating process is executed and what to include in the disclosure (IFRS 2004). When all the above is happening to the forest product companies it is a great opportunity to put together a study of what they really think about the IAS 41 today. The timing is perfect since the standard has been mandatory applicable since January 1st 2005.

Since the IASB decided to go through with the IAS/IFRS there has been a number of student thesis made on the effects of the new set of rules and how the implementation process is proceeding. Plenty of student thesis at the School of Economics and Commercial Law in Gothenburg have been examine how specific companies adjust to the new set of rules. I found that there may be a shortage of research about specific areas such as how the noted forest products companies in Sweden are handling the adjustment to IAS 41. Hence, one interesting aspect is to make a deeper analysis in the perspective of the forest products companies.

It is a known fact that the balance between reliability and relevance is complex (Smith 2000). The cost of an asset is entirely reliable because it is a transaction that already has taken place (iasb.org). But is the cost relevant to the users of the financial reports? The cost does not give a genuine impression of the value of the asset, merely what it was bought for (Epstein 2003). The fair value is not as reliable as the cost. The asset is valued to the price of an active market as if the asset was to be sold at that day. For companies



that do not plan to sell their asset the fair value is just a snap shot of a value that change frequent (iasb.org). Contrary, the relevance of the fair value is high for both the users and the companies. The discussion amongst the auditors and the companies regarding the fair value has been ongoing since the IASB introduced the IAS 41. It is interesting to include a study what the companies' and the auditors' opinion about which is more important of the two.

The implementation of the IAS 41 is an ongoing process which will continue long after the first year of having to apply to the standard. The problem that this study is focusing on will be a snap shot of the perception at this time. The knowledge and the custom application to the standard will be changed over time as the forest product companies learn more about it, and the change of attitude might be noticeable as they change their procedure (Epstein 2003).

1.3 Definition of the Problem

The discussion above clarifies why there is a problem and leads up to the main problem which is;

What is the forest products companies' perception of the IAS 41 today?

To be able to evaluate and answer the main question, three sub questions are formulated;

How do companies value its forest properties?

How do companies value its assets if an active market does not exist?

What is more important: reliability or relevance?

1.3.1 Purpose

The purpose of this thesis is to examine what the forest products companies really think about the IAS 41. The secondary purpose is to see what the firms and the auditor think is valued most of reliability and relevance. Further more, it is interesting to see how the custom in the forest industry is when it comes to valuing the forest properties. The examination of the research problem is an attempt to deliver new and important knowledge.

1.3.2 Delimitations

In this thesis a focus on the forest companies on the stock market in Sweden is made. Since there are only a few companies that are noted on the stock market and owns forest, all of these companies will be contacted for an interview. In addition one auditor from a world known auditing firm will be interviewed.

This study will be a cross section of the perception and does not aim to give a picture of the past or the future, merely the perception today. Further, it is interesting to study how the custom in the forest industry is when it comes to valuing the assets.



1.4 Thesis Outline

The thesis starts off with an *abstract*. The section is a summary of the thesis and is a good way for the reader to form an opinion about the area of research, and for the reader to be able to see what studies have been conducted as well as get a brief summary of the results.

- Chapter 1 In the *first chapter*, an introductory background to the topic of the thesis is provided. The discussion of the problem, as well as the definition of the research questions is presented. It also includes aims, delimitations of the subject and an outline of the thesis.
- Chapter 2 The *second chapter* will allow the reader to understand the methods underlying the empirical studies. The chapter includes the choice of research approach and the process of data acquisition. It also includes interview approach, the interpretations and the analysis of the qualitative data. In addition, the chapter includes sections where the objectivity, the validity as well as the reliability of the thesis and of the methods employed in order to conduct the empirical studies are discussed.
- Chapter 3 The *third chapter* consists of the theoretical framework. It includes the facts that the reader needs to understand the empirical studies, background information of the IAS/IFRS standards and a thorough presentation of the IAS 41.
- Chapter 4 The *fourth chapter* contains the empirical studies. It is a compilation of the case study research and the results of the interviews made. In addition it includes significant facts from the Interim Reports January to March 2005.
- Chapter 5 In the *fifth chapter* the empirical studies are analyzed on the basis of the theoretical framework.
- Chapter 6 In the *sixth chapter* a discussion of the study and the conclusions are presented to answer the research questions and to fulfill the purpose with the thesis. Further proposals for future research in the subject are given.

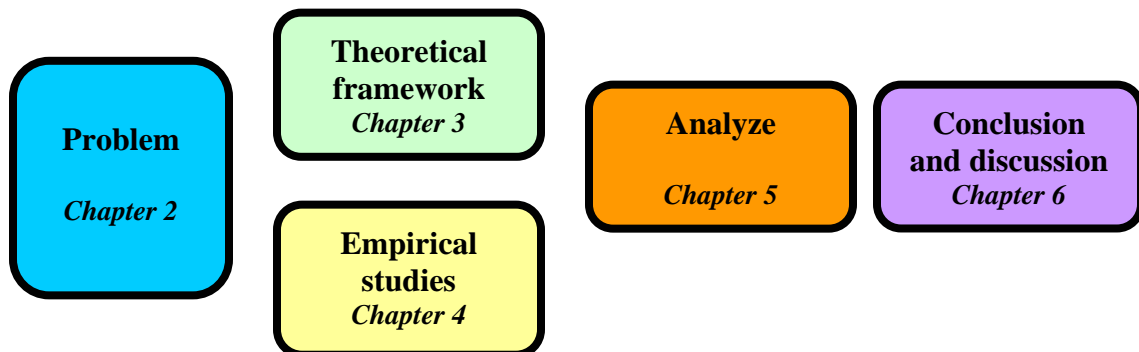


Figure 1; Model describing relation between the different chapters in the study.



1.5 Summary

Recently, an accounting standardization movement has swept over Europe in an attempt to harmonize and internationalize accounting systems. The new set of rules are called IAS/IFRS and the International Accounting Standard 41 covers the primary sector and introduces a fair value model to agricultural accounting. The main research question is: *What is the forest products companies' perception of the IAS 41 today?*. The purpose is to examine what the forest products companies really think about the IAS 41. The secondary purpose is to see what the firms and the auditor think is valued most of reliability and relevance. In this thesis a focus on the forest companies on the stock market in Sweden is made.



Abbreviations

EU	European Union
FAR	Föreningen Auktoriserade Revisorer (Swedish Institute of Authorized Public Accountants)
Framework	Framework for the Preparation and Presentation of Financial Statements
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
RR	Redovisningsrådets rekommendationer (Swedish Financial Accounting Standard's Council)
U.S. GAAP	United States Generally Accepted Accounting Principles
ÅRL	Årsredovisningslagen



Chapter 2 Methods

In this chapter, the methods used to accomplish the study will be described. In order to fulfill the main purpose a number of interviews has been conducted and financial reports has been compared. The method that has been used, and some possible problems with the approach, is presented in this chapter.

2.1 An introduction to methods

The method is the tool used to solve a problem and to produce new knowledge (Holme 1997). The problem is what is solved by the research (Patel 1987). The research must be objective and the scientist should be able to be replaced without effecting the research results (Charles 2001). The chosen study method is decisive to answer the formulated problem and the purpose of the thesis. The formulation of the problem is the foundation of what method to use when gathering and processing the information.

2.2 Qualitative and quantitative method

The qualitative and the quantitative research is how the gathered information is considered and analyzed (Patel 1994). Qualitative means that the data collection is focused on soft data, such as interviews. In other words, a verbal analyzing method of the text material is used (Backman 1998). Quantitative research means that statistical consideration and analyzing methods are used. It is a benefit to combine both qualitative and quantitative element in one research (Holme 1997) (Svenning 2000).

When using the quantitative method it is important that the information received is possible to quantify. This way of thinking will characterize the formulation of the problem, which will have a logical structure and it will furthermore be reflected in the design of the paper. These instruments strive to explain and elucidate the research problem (Holme 1997).

When using the qualitative method there are four principles that can describe the research (Holme 1997). Qualitative method is characterised by:

1. a closeness to the subject being studied
2. a true and real reproduction of what happened
3. the report should include descriptions important for the understanding of what was studied
4. the report should include direct quotes that show the individuals own way of expressing him-/herself.



Qualitative method has closeness to the object; there is a direct relation between the subjects (Svenning 2000). To attain a high degree of validity, the researcher has to consider how his or her own actions will effect the subject. Consequently, the researcher has to know if to be active or passive. Moreover, the researcher has to create a comfortable environment where the subject feels relaxed and does not feel any pressure. It is important that the subject can answer the questions freely and honest, not give the answer the researcher wants (Holme 1997). Qualitative method is also known by its flexibility. The flexibility is from two aspects. First, to correct errors during and between researches. Secondly, to change the questions and the sequence they are asked (Holme 1997).

The method used in this study is interviews which is a qualitative analyze method. The interviews are based on a questionnaire that was prepared in advance. There are two important aspects to have in mind when forming the questionnaire. First, how much responsibility is put on the interviewee when it comes to order and wording of the questions, so called standardization. Secondly, how much liberty the interviewee gives to answer the questions freely, so called structuring. It is important to avoid long, leading and double questions. Furthermore, either start with long questions and move over to short questions, or the other way around. Do not mix long and short questions (Patel 1997).

2.3 Research approach

After having formulated the problem and the purpose of the study the next step is to decide the research approach. Within science there are two different approaches to conduct a research; an inductive model and a deductive model. These two models define different ways to relate theory to empirical findings. When using an inductive model the conclusions are based on empirical data meaning that more general hypothesis and theories are created from experiences in reality. The deductive model focuses on a more logical conclusion and hypothesis formed from existing theories. When using an inductive approach, the researcher starts with a number of separate cases and asserts that any perceived relation, which is observed within all of the cases, is generally accepted. Contrary, the deductive approach starts with a generally accepted rule and asserts that this general rule is valid within all cases that are investigated (Alvesson 1994).

This study will have an inductive approach, since it will conduct observations and analyses that will lead up to conclusions and theories, rather than formulating hypotheses from theories and then letting them control the research problem.

2.4 Research design

When discussing the design of the research three main designations exist. There are several different approaches depending on the design of the study. Some examples are descriptive, explorative, casual and investigating approaches (Patel 1994).



This study will have a descriptive approach, since it will concentrate on trying to describe the actual situation around the problem rather than interpreting and solving it. The descriptions can be about relations that have been or that are right now. Limitations are made by only exploring the aspects of the phenomenon that the researcher is interested in. The descriptions of the aspects are detailed and thorough. It may be a description of a single aspect, but also the connection between different aspects.

2.5 Data Collection

The data collection can be done by surveys, statistics, experiments or case studies (Ryan 2000). When using surveys, a large number of questionnaires are distributed to the sources of information. Alternatively, many standardized questionings are held in person. Using statistics as a method is preferable when a study is based on quantitative data. Experimentation can be a time consuming process.

What is required to fulfill the requirements of this thesis is a research strategy that allows an investigation of the effects. (Ryan 2000). Interviews are one technique to collect data and information. It is important to note that the person conducting the interview has a lot of responsibility whereas the questions wording and order. Furthermore, in what scope the person being interviewed is given to freely answer the questions based on attitude and previous experiences. (Holme 1997). In this study the data collection strategy is interviews.

2.6 Source of information

The acquisition of information and data can be either primary or secondary in its nature, depending on the distance from the original information source (Patel 1994).

2.6.1 Primary sources

Primary data will be gathered for a specific purpose (Bjerke 1994). The data can be collected through direct observation, interviews and experiments (Svenning 2000). Interviews are common techniques to gather information in the subject of financial accounting.

In this thesis primary data will be gathered through interviews with target persons who possess the demanded knowledge and experience concerning the problem area. The aim with applying primary sources in the study by using interviews is to describe and try to understand the reality from the perspective of the companies. The current importance of the topic is also a reason why the interview method is found appropriate.

2.6.2 Secondary sources

The secondary sources are also significant in this study in order to create an adequate frame of references with different aspects of the subject. Secondary data means analyzing and using already existing material. Secondary data can be web pages, literature, published papers and scientific articles from magazines and newspapers in addition to the



financial reports from the companies (Halvorsen 1992). Secondary sources that are used in this thesis are for example scientific literature covering important theories and models within this specific research field, relevant articles discussing the new accounting rules and their consequences and information published by different accounting firms. Moreover, information was gathered on the website of the IASB, on Deloitte's website and on the website called IAS Plus where Deloitte publishes information regarding the new standards.

2.7 The Interviews

The focus in this thesis is on conducting interviews. One of the advantages of conducting interviews is the flexibility that can be employed. Interviews give the possibility to ask attendant questions and direct the conversation into other areas of concern that comes up. To be prepared for the interviews and to keep the interviews well structured, two questionnaires will be used. One questionnaire for the company representatives and one for the auditor (Kvale 1997) (Trost 1997).

2.7.1 Selection

The first thing to decide is what information is needed for the study and who is able to provide that information (Merriam 1994). The selection process was started with a search on the Internet (di.se) for all forest products companies noted on the stock market in Sweden. The need of an auditor's opinions and reflections in the subject was also desirable. To get in touch with the interviewees a primary contact was made via e-mail to find the suitable member of the staff to interview (see Appendix 2). Three forest products companies and one auditing firm were available for interviews. The number of interviews is sufficient to examine and understand the problem of this thesis. The aim is to fulfill a certain degree of saturation when deciding the number of interviews (Merriam 1994).

2.7.2 Interview approach

The ones who had the right knowledge to answer the questions in this interviews were working in different cities spread over Sweden. Because of the distance all interviews were held over the phone. An interview can be held without direct contact such as over the phone (Befring 1994) but the best way of conducting interviews is personal interviews. Personal interviews gives the opportunity to see the face expression and the personal impression of the interviewees stands out more. The telephone interviewees does not give that opportunity but provides advantages such as the possibility to ask attendant questions. The method to conduct interviews over the phone might have a negative effect on the interview result.

All interviews were held in Swedish to avoid a situation where the interviewee or the interviewer was inhibited by the language. The kind of interview used is the semi-structured which is a qualitative interview method used to get a deeper understanding for certain behavior (Andersen 1998). Using either a completely structured or unstructured model would not help to answer the main problem, since it is important to receive



answers concerning the same issues and therefore are in need of a standard template. On the other hand, the advantage of the flexibility that the unstructured method entails is taken.

Approximately one week prior to the interview the questionnaires were e-mailed to the interviewee to make sure they prepared themselves (see Appendix 3 and 4). The outline of the interview guide was structured in accordance with the technique called funnel-technique (Patel 1994). In alliance with the technique the interview starts up with long questions and moves over to short questions, or the other way around. The questions can be of two kinds, open or closed. For this research open questions are used exclusively (Bjerke 1994).

The interviews were conducted between May 4th to May 10th. All the persons being interviewed were well oriented with the subject, and had a great capability in auditing, accounting and valuating forests. The interviewees were all highly qualified and all were business school graduate at least. All interviewees set aside plenty of time for the interviews. They all sat in a room by them selves and except for a couple minor interruptions we were not disturbed during the interviews. The interviewees were very accommodating and obliging and the impression was that the interviewees acted professionally and answered honestly.

In order to assure that all information was documented the interviews were recorded. A possibility when using the tape recorder is that the respondent feels uncomfortable. To avoid this all the respondents were asked if they agreed to be taped, and were offered to be anonymous in the study. All respondents agreed to be taped and they did not want to be anonymous. Further, the respondent was asked to read and approve the compilation of their answers. Each interview lasted for about 60 minutes. A much longer interview is not preferable, since the interviewee often gets tired and unfocused after about one hour (Andersen 1998).

2.8 Sources of error

It is important to include a discussion about the validity, reliability and criticism of the sources (Svenning 1996). These three criteria indicate how useful the paper is for the reader and if it can rely on the author's conclusions. Reliability and validity are two variables that are partially integrated with and dependent on each other, which mean that a complete reliability is a condition to achieve a complete validity (Befringe, 1994).

2.8.1 Validity

The link between the theoretical framework and the empirical studies is called validity. The research validity is its ability to measure what is meant to be measured (Svenning 1996). Validity is divided in two groups, internal and external validity. Internal validity is what degree the results match reality. External validity answers to whether the empirical findings can be generalized. Generalization must be made very carefully. The whole theoretical framework is resting on the latter (Ryan 2002).



Population validity threatens the external validity when limitations exist in the accessible. Time validity is concerned with the extent to which results of a particular study at a point in time can be generalized to other periods of time. Environment validity threatens the external validity, such as generalizing of results from a laboratory setting to other experimental settings (Ryan 2002).

The author of a study has great freedom of action when it comes to the shape and the contents of the study. Besides, the interviewer has the possibility to effect the answers. The critics of the method used in this study means that the sensibility and integrity of the author can reduce the liability and the quality of the study research (Merriam 1994). For this study a qualitative research methods was used and for that, the validity demand is essential. The questionnaires were provided to the respondent prior to the interview to give them time to prepare themselves. Further, the respondent was asked to read and approve the interview. Due to the long distance between all the respondents all interviews were held over the phone. The starting point was the same for all interviews and they all were conducted through the same time period.

By formulating questions that only respected the problem of the study, and by keeping the interviews long enough to only obtain relevant information, it was secured that the measuring instrument only measured what it aimed to measure. Furthermore, the focus was on selecting interviewers with expert knowledge within the subject and the aim of the study. By recording the interviews the risk was minimised of forgetting what the interviewees said. The interviewer were offered to be anonymous and to exclude information from the written interview, but they all accepted that the interview were typed in this paper in its full. Moreover, they were given a chance to read the typed interviews to make sure it was interpreted and understood correctly. Using interviews as the measuring instrument avoids that the instrument only will embrace the part intend to measure, since everything that was ment to discussed and evaluated were expressed in the questions formulated in the standard template. Due to all these reasons, the validity of this study is considered relatively high.

2.8.2 Reliability

Reliability measures the extent to which the research is free from random errors. If nothing is changed in the research population, two researches with the same purpose and the same method should give the same result. In other words, to which degree the investigation will give the same result if repeated (Ryan 2002). It is important to make sure that the measuring instruments do not include any faults that could create an incorrect result (Svenning 1996). In qualitative research methods the reliability is not as important as the validity. Because of the nubmer of interviewees this study might not reach the same conclusions if repeated depending of the interviewee selection.

The interviews were taped in order to avoid misinterpretations of the answers and the compilation of the interviews was read and approved by the interviewees. By conducting personal interviews it made it easy to perform a dialogue and ask attendant questions. To



increase the reliability, the same questions in the interview were asked in different ways to see if the interviewees' answers were the same. This gave an indication about whether the interviewees' answers were well thought-out. There were never more than one interview a day, so that the information could sink in and also gave the author the time to directly summarize all the information given during the interview. It is a fact that the qualitative research is not extensive and the author is aware of that. Due to all the reasons above, the reliability of this study is relatively high.

2.8.3 Objectivity

Different values will effect the individuals involved in the research process. These values are subjective and therefore it is impossible to achieve a completely objective research. The author can however strive to achieve some kind of limited objectivity. This can be achieved with a certain degree of relevance in the problem of the research, probability in the conclusions and neutrality in the analysis of the information obtained from the measuring instruments (Ryan 2002). In this paper the author tried to be as objective as possible. By using a number of sources it is easier to secure the objectivity of the information collected. The questions asked in the interviews were formulated in such a way so that emotionally charged words were avoided. Further, this helped to avoid expressing subjective values during the interviews.

2.8.4 Criticism of the Sources

Both primary and secondary sources were used for this study. To estimate the credibility of the sources it is important to know where and when the information was published or given and for what purpose (Patel 1998). The primary sources used were the information received from the interviews. An important aspect of interviews is that the interviewer deliberately and intentionally can have an influence on the answers. When compiling an interview there is a risk that the interviewer interprets the answer incorrectly (Patel 1998). To reduce this risk the interviews were recorded and the respondent was asked to read and approve the compilation of the interview.

The secondary sources used were mainly books and journals that are considered scholarly. These are to be considered as reliable and independent. The topic for this study is of current interest and the sources are published the last few years. When using for example articles and websites that are not considered as scholarly, it is important to know that they can be strongly influenced by the author. That can have an impact on the reliability of the study.

All the sources used in this study are considered applicable and relevant. The author has tried to refer to the sources in a trustworthy way. The results and the analysis will in one way or another be influenced by the knowledge of the author.

2.9 Summary

The method used in this study is interviews which is a qualitative analyze method. The interviews are based on a questionnaire that is prepared in advance. This study will have



an inductive approach, since it will conduct observations and analyses that will lead up to conclusions and theories. Primary data will be gathered through interviews with target persons who possess the demanded knowledge and experience concerning the problem area. Secondary sources that are used in this thesis are for example scientific literature covering important theories and models within this specific research field, relevant articles discussing the new accounting rules and their consequences and information published by different accounting firms. The validity of this study is considered relatively high.



Chapter 3 Theoretical Framework

In this chapter, the fundamental theoretical framework for IAS/IFRS will be summarized. In the text, definitions are explained and theories that are of relevance in this thesis will be presented. The essentials of the chapter are the 41st Standard and a thorough review of it will be given.

3.1 Background

The complexity of conducting international business operations across national borders, each nation with a different set of business regulations and different accounting methods, presents a daunting challenge for both individual accountants and for the professional bodies that establish accounting and auditing standards (Epstein 2003). A diversity of applicable accounting, auditing and tax standards and regulations may negatively impact such enterprises' abilities to prepare reliable financial information necessary for both reporting and for their stakeholders. As the number of countries of activity increased so does the potential complications. The new set of standards, IAS/IFRS, is one attempt to harmonize and internationalize the accounting systems in all of Europe (Axelman 2003).

To make it easier for international enterprises to work in several nations and to harmonize and internationalize the accounting systems, is not the only effects that the IASB wants from the standards. It also strives to facilitate European companies to look for establishment and to get capital on markets outside Europe. EU's own capital market becomes more attractive for outside investors and it will result in better financial reports comparable across nations. In addition, to create appropriate financial information and a cost efficient capital market. The IAS/IFRS regulations make the European Union the world's largest region with joined accounting standards (Axelman 2003). Differing national traditions and circumstances contributed to the development of one set of financial reporting standards. From a financial reporting perspective the complexity of conducting international business across national borders, each with a different set of business regulations and often different accounting methods presents a daunting challenge for both individual auditors and for the professional bodies that establish accounting and auditing standards (Epstein 2003).

The IAS/IFRS are applicable from January 1st 2005. Before 2005 the companies listed on the stock market in Sweden complied with Årsredovisningslagen (ÅRL) and Redovisningsrådets rekommendationer (RR). For the forest products companies the value of the forest properties was accounted for by its cost minus the accumulated depreciation.

3.2 The IASC and the IASB

International standard setting began in 1973 through an agreement reached by nine worldwide professional accountancy bodies. The agreement resulted in the formulation of the International Accounting Standards Committee (IASC) (Axelman 2003). The IASC



objectives were to provide accounting standards tailored for international trade. The standards were named International Accounting Standards (IAS). The IASC issued its first exposure and went on to issue a total of 68 exposure drafts, 41 International Accounting Standards (IAS) and 25 Interpretations of IAS (see Appendix 1) (Epstein 2003). In May 2000, the IASC's constitution was amended, and a group of trustees was appointed. The IASC was renamed the International Accounting Standards Board (IASB) and the new standards were decided to be called International Financial Reporting Standards (IFRS) (iasb.org). The IASB's objectives were set out in a revised constitution. The ultimate goal is the development and rigorous application of a single set of global accounting standards, which will produce high-quality financial information to help participants in the world's capital markets to make economic decisions (pwcglobal.com).

IASB publishes its standards in a series of pronouncements called IFRS. It has also adopted the body of standards issued by the IASC. Those pronouncements continue to be designated IAS. All IAS will be applicable unless and until they are revised or withdrawn (Epstein 2003). Today there are five IFRS standards and forty-one IAS standards (Axelman 2003).

3.3 Framework

Framework for the Preparation and Presentation of Financial Statements (Framework) sets out the concepts that underlies the preparation and presentation of financial statements for external users. It was issued in 1989 and adopted by the IASB in April 2001 (iasb.org). The Framework was intended to be IASC's conceptual foundation upon which later accounting standards would be build, and it has served as this purpose ever since (Epstein 2003).

The Framework identifies the expected beneficiaries of financial reporting, the objective with the reporting process, and the underlying assumptions such as going concern and accrual basis. Further, the Framework includes the qualitative characteristics of financial reporting. The primary qualitative characteristics are understandability, relevance, reliability and comparability. The Framework also thoroughly discusses the definition of assets, liabilities, equity, income and expenses (Epstein 2003).

The Framework assists the IASB in the development of future IFRS and in its review of existing standards. In addition, the Framework assists IASB in promoting the harmonization of regulations, financial reporting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by IFRS (iasb.org).

The Framework is not a standard itself and does not define standards for any particular measurement or disclosure issue (Epstein 2003). In a limited number of cases there may be a conflict between the Framework and a requirement within an IFRS. In those cases where there is a conflict, the requirements of the IFRS prevail over those of the Framework (iasb.org).



3.4 Qualitative characteristics

According to the Framework qualitative characteristics are important to consider when compiling and distributing financial data and information. The qualitative characteristics according to the IASB are: relevance, reliability, understandability and comparability. There are situations where the different characteristics are contradictory and an adjustment must be done (iasb.org).

- Relevance means the information has the capability to make a difference in user's decision. The relevance of information is effected by its nature and materiality
- Reliability means that the information is representationally faithful, free of material errors, and is neutral or free from bias
- Understandability means that the users with basic financial knowledge must be able to understand the information
- Comparability means similar transactions must be accounted for in the same way. Can be over time in one company, and between companies.

The primary characteristic is relevance which means accounting information must be capable of making a difference in a decision. It consists of predictive value, confirmatory value, and timeliness. The information is considered relevant if it effects the users decision by making it easier to value previous, recent and future events or by confirming or correcting previous assumptions. The relevance of the informations is effected by the characteristics and the essentials. Information is relevant if left out it might lead to another decision.

There are two characteristics that some authors might call minimum demands for relevance (Smith 2000): understandability and topicality. Understandability means that the user understand the information. Topicality means that financial report should be released soon after the end of the period (iasb.org). The complex of the qualitative characteristics tend to lead to all different opinions what they are. For instance does the members of the IASB not all agree what the definition of relevance is.

Reliability means faithful representation, which includes completeness, verifiability, and neutrality. But not, as a distinct characteristic, substance over form. The financial data is reliable if it reproduce the right aspects of the reality and does that with not to much unsecurity. Caution is a criterion of reliability. Conservatism / prudence is not a separate qualitative characteristic, and does clash with neutrality (iasb.org).

According to the IASB it is important that the information has representational faithfulness and verifiability. The representational faithfulness means that the financial information reproduce the aspects of the reality that it aim to reproduce. As for relevance it has some characteristics which is minimum demand for representational faithfulness. These are neutrality, substance over form, entirety and materiality. Neutrality is the intentions of the producers of the financial data, in other words the companies. Substance over form



means that if an occurrence has a financial purpose that differs from the legal form, one should produce after the substance, the financial meaning of the occurrence, over the legal form. Entirety means that the financial data should include all essential financial occurrences that has occurred during the period. In addition, all essential aspects of the financial state by the end of the period. Materiality is a restriction. It means that the information should be enough important to effect decisions for any user.

Previously the asset was generally valued to the historical value but after the IAS/IFRS were introduced the asset is valued to the fair value (Epstein 2003). The value on the asset based on transactions that already has taken place is reliable. From the users point of view the cost might not be a value that is considered usable to make decisions. Further, it is not very relevant if the transaction took place a long time ago. It is allowed to show the cost of an asset in the disclosures. The fair value can give a more real picture of the value of the asset, if the asset was sold today (Epstein 2003). The value can be considered relevant, but it might not be very reliable (iasb.org). The fair value is based on a price on an active market today. If the owner of the asset does not plan to sell, it might not be a relevant value after all. This discussion is ongoing within accounting world in Europe (Epstein 2003). Both qualities, relevance and reliability, are necessary for information to be useful to present and prospective investors and creditors.

3.5 IAS 41 Agriculture

Apart from banking, specialized industries have received no previous attention from the IASC (Epstein 2003). Agriculture is the first industry to be given a comprehensive and mandatory financial reporting model from IASC. IAS 41 was the final standard approved by the former IASC, before the recon structuring approved in 2000 became effective and IASB took over. Historically, agricultural activities received little attention from the worlds accounting standards setter (Epstein 2003). An explanation to that may be the fact that the major national and international accounting standard setters have been in the United States and in the United Kingdom, whose economies are far less dependent upon agriculture than many other nations of the world (Epstein 2003). In other nations in the world some companies such as forest products companies have accounted for timberlands at original cost, charging depreciation only to the extent of net harvesting, with reforestation costs charged to expense as incurred. Others have been valuing forest properties at the net present value of expected future cash flow. In Sweden the forest product companies had to apply with the ÅRL and account forest at its cost.

According to the Framework there are four main methods used to value an asset (iasb.org) (Epstein 2003). Those four are historical cost, current cost, realizable value and future value. According to IAS 41 the asset must be valued to the fair value which means that it is only the realizable value that can be applied. The differences between IAS/IFRS and the Swedish accounting regulations are many (Axelman 2003). There are no corresponding standard available in the Swedish ÅRL or RR. According to ÅRL the assets should be valued to the lowest of cost and fair value. The IAS 41 is available in its

full context in the book "*International Financial Reporting Standards (IFRS)*" released by IASB 2004.

A biological asset is measured on initial recognition and at each balance sheet date at its fair value (IASB 2004: IAS 41:12) less estimated point-of-sale costs (IAS 41:14). Agricultural products harvested is measured at its fair value less estimated point-of-sale cost at the point of harvest (IAS 41:13). Point-of-sale cost includes commissions, levies, transfer duties and taxes.

A gain or loss arising on initial recognition at fairvalue less point-of-sale costs is included in profit or loss (IAS 41:28). An unconditional government grant related to a biological asset is recognized as income when the grant becomes receivable. A conditional government grant is recognized when the conditions attaching the grant are met. IAS 41 specifies disclosures related to agricultural activity (iasplus.com).

3.5.1 Coverage of IAS 41

IAS 41 applies to all enterprises which undertake agricultural activities. IAS 41 covers biological assets such as living plants or animals related to managed agricultural activity that are in process of growing, degenerating, regenerating or procreating and which are expected to eventually result in agricultural produce. Some examples are trees in plantation, raising livestock and fish farming. IAS 41 also applies to agricultural produce at the point of harvest (IAS 41:5). After the point of harvest IAS 41 does not apply. IAS 2 Inventories (IAS 41:13) applies from the point of harvest and then on. Nor the land where the biological asset grows IAS 41 applies with. IAS 16 Property, plant and equipment (IAS 41:25) and IAS 17 Leases or IAS 40 Investment Properties that applies on that. IAS 41 does not apply on agricultural activities that are not managed. Further, mineral, oil, natural gas is not yet at all covered by the IAS standards (iasplus.com).

The companies in Sweden that do not use the IAS/IFRS are not allowed to use the IAS 41 until year 2006. The RR 32:60 says that assets that are effected by the standard must be valued to its fair value. But according to ÅRL this is not allowed until 2006. The different laws, recommendations and standards contradict each other on this point.

3.5.2 Recognition of agricultural assets

Existing rules are applicable on the recognition of an asset in all IAS/IFRS Standards that applies on different assets. There are three requirements (iasplus.com):

1. the company must have ownership or rights of control akin to ownership that result from a past event
2. future economic benefits are expected to flow to the enterprise from its ownership or control of the assets
3. the cost or fair value must be measured with reliability (IAS 41:10)



3.5.3 Measurement of fair value

The definition of fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms-lengths transaction (iasplus). The first and by far the most reliable way of measuring the fair value of an asset is a quoted market price in a active market for a biological asset or agricultural produce (IAS 41:17). The IASB's definition of an active market is a market for which all of three conditions exist: the items traded within the market are homogenous, willing buyers and sellers can normally be found at any time and prices are available for the public (iasplus.com). The net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and estimated cost necessary to make the sale (iasb.org).

3.5.4 Alternate measurements

If an active market does not exist the first choice would be a market-determined price such as the most recent market price for that type of asset (IAS 41:18) or similar assets (IAS 41:19). If a reliable market-based price is not available, the present value of expected net cash flows from the asset should be used, discounted at a current market-determined pre-tax rate (IAS 41:20). In a small number of situations the cost is an indicator of the fair value (IAS 41:24). The fair value is not based on or adjusted to the actual price in a binding sale for delivery at a future date (IAS 41:16).

3.5.5 Disclosure

IAS 41 includes the requirements of the additional information in the financial reports, the disclosures. According to the Standard the disclosure should include the carrying amount of biological assets (IAS 41:39) and the description of the company's biological assets (IAS 41:41). The IASB's definition of carrying amount is the amount at which an asset is recognized in the balance sheet after deducting any accumulated depreciation or amortization and accumulated impairment losses thereon. Further the change in fair value (IAS 41:40), the fair value of agricultural produce harvested during the period (IAS 41:48), the financial risk management strategies (IAS 41:49) and methods/assumptions for determining fair value (IAS 41:47) must be included in the disclosures.

A description of the nature of a companies activities with each group of biological assets and non-financial measurements is required (IAS 41:46). In addition, information about biological assets whose title is restricted or that are pledged as security, including commitments for developing or acquisition of biological assets (IAS 41:49). Reconciliation of changes in the amount of the assets, showing separately the changes in value, purchases, sales, harvesting, business combinations and foreign exchange differences (IAS 41:50) are compulsory. In addition to the required information there are plenty of encouraged disclosures such as a quantified description of each group of biological assets distinguishing between consumable and bearer assets (IAS 41:43).

If fair value cannot reliably be measured there are additional disclosure required (IAS 41:54-55):

- description of the asset
- an explanation of the circumstances



- if possible, a range within which the fair value is highly likely to fall
- gain/losses recognized on disposal
- depreciation method
- useful lives or depreciation rates
- gross carrying amount and the accumulated depreciation, beginning and ending

3.6 IAS 41 in the financial statements

The main purpose with a financial statement is to provide different users with the information they might need to make a decision (Smith 2000). The Standard covers what should be included in the financial statements and what should be included the disclosure (Epstein 2003).

3.6.1 Balance sheet

The nature and stage of production of each group of biological asset should be described in narrative format in the disclosure in the financial statements. Consumable biological assets should be differentiated from bearer assets, with further sub visions into mature and immature subgroups for each of these. The purpose of these disclosures is to give users of the financial statements some insight into the timing of the future cash flows (Epstein 2003).

Huge forest assets are being valued after what they might be able to yield in cash flows in the future (Svensson 2004). In one year Stora Enso doubled its values in the group's forest assets. Stora Enso has two big companies in the group and when these two were valued according to the fair value model it gave an effect of about 400 MSEK (Svensson 2004). This one-off effect is only shown in the balance sheet. On-going changes on the assets fair value will effect the balance sheet since both the increase and decrease is shown. When the assets in the balance sheet rises the effect is that the equity increase with the same amount. Several ratios are effected by this change. Thus the fluctuation in the ratios may rise compared to companies using ÅRL. The fair value makes the balance sheet bigger.

3.6.2 Income statement

The changes in fair value should be presented on the face of the income statement, ideally broken down between groups of biological assets (Epstein 2003). The effects on both the balance sheet and the income statement are big (Svensson 2004). The profit pre-taxes is most likely to become high. The solidity is improved.

The difference between the companies using IAS and RR 30-32 and the companies using ÅRL and RR 1-29 will be shown in the result. The companies using ÅRL makes the depreciation over the income statement whilst the companies using IAS adjusts over the balance sheet.



3.7 Summary

Agriculture is the first industry to be given a comprehensive and mandatory financial reporting model from IASC. IAS 41 applies to all enterprises which undertake agricultural activities. IAS 41 covers biological assets such as living plants or animals related to managed agricultural activity that are in process of growing, degenerating, regenerating or procreating and which are expected to eventually result in agricultural produce. One example is trees in plantation. The definition of fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms-lengths transaction. If a reliable market-based price is not available, the present value of expected net cash flows from the asset should be used, discounted at a current market-determined pre-tax rate (IAS 41:20). According to the Framework there are four qualitative characteristics which are of great importance for the accounting information.



Chapter 4 Empirical Studies

In this chapter, the companies used in the Empirical Studies are introduced. Since the companies were represented by one employee that person will be presented too. Some background information about the employee will be provided so the reader can get an impression about the representatives competence in the matter. The information obtained from the interviews is presented in this chapter. In addition to the interviews a study of the first quarter report of 2005 is illustrated.

4.1 The companies

Holmen is a forest product industry group with an annual production capacity of around 2.4 million tons of paper and paperboard. The predominant market is Europe and the group has an annual turnover of around 15 MSEK and a profit of 1,6 MSEK. The history of Holmen goes back more than 400 years. Like many other old companies in Sweden, Holmen has its roots in businesses that were founded on assets initially of water and ore, followed by forest. The group is harvesting some 2,6 million m³ of wood per year. The Group owns one million hectares of forest. Holmen has 4900 employees (holmen.com). Interview with Mr Anders Almgren, *Group Controller*, at May 6th 2005.

SCA is an international paper company that produces and sells absorbent hygiene products, packaging solutions and publication papers. SCA offers a wide range of products, services and solutions essential to the daily lives of people in diverse communities around the world. The company has about 50 000 employees in 50 countries. Europe and North America are the main markets. SCA owns 2.0 million hectares productive forest land and conducts sawmill operations. SCA has a net sale of 90 billion SEK and a operating profit of 5,7 MSEK (sca.se). Interview with Mr Patrik Jonsson, *Forrest*, May 9th.

Svea Skog is one of the largest forest owners in Sweden. The company owns a total of 1/5 of the farmed forest in Sweden. Svea Skog manage in total 4,5 billion hectare land of what 3,4 billion hectare is forest properties. Svea skog is fully owned by the swedish government and the company has about 1800 employees. The annual turnover is about 8 335 MSEK. The company is one of the largest independent supplier of timber with 20 percent of the total delivery of the swedish timber market (sveaskog.se). Interview with Mr Björn Olhans, *Forrest Accounting*, at May 4th.

PWC Öhrlings is an auditing firm with one person's expert knowledge on IAS 41. Öhrlings PricewaterhouseCoopers is Swedens leading professional services firm, with 3000 staff members in 130 offices across the country (pwcglobal.com/se/swe/main/). Interview with Mr Martin Johansson, *Auditor*, at May 10th 2005



4.2 The Interviewees

Holmen: Anders Almgren, *Group Controller*. The person responsible for business and finance within the group. Anders has worked with Holmen for 15 years and he has a degree in business administration.

SCA: Patrik Jonsson, *Forrest*. His duty includes group accounting questions and controller. He works at SCA Forest Products in Sundsvall and has been with the group for 7 years. Patrik has degree in business administration. He has previously worked with accounting, valuing and audition both theoretically and practically. Patrik is the one in charge of the implementation and the changes concerning the IAS 41.

Svea Skog: Björn Olhans, *Forrest Accounting*. He is in charge for business administration and all in general concerning business control. He is not responsible for the accounting in general but he has been in charge for the implementation of the specific standard IAS 41. Björn has worked with Svea Skog since 1988. He has degree in business administration.

PWC Öhrlings: Martin Johansson, *Auditor*. Chartered accountant since 15 years in Öhrlings PricewaterhouseCoopers in Falun. He is the person managing, and responsible for, a major forest products company in Sweden.

4.3 The Interviews

The interviews are illustrated according to the questionnaire that were used in the interviews. The areas in the questionnaire were background, approach, consequences, qualitative characteristics and complex of problems.

4.3.1 Background

All of the interviewee's biological assets consist of forest properties and growing forest. The reaction in the forest product industry when the standard was established was varying. One interviewee said that IAS 41 did not fit the company (SCA) very well. Another interviewee said they were curious, but neutral and that the company saw the change and tried to understand. One interviewee said that they were against the IAS 41. They even gathered the Swedish and Finnish forest product companies and made a statement on the matter and submitted it to the IAS Board for consideration. The auditor said that no one thought it was right or easy. Johansson at Öhrlings explains:

"The most difficult thing is that you get a certain way of thinking showed down your throat. The highest management in the companies doesn't see the consequences of IAS 41. They don't see the problems. The management only says: solve it and get back to us when your have a solution"

None of the interviewees thought that any company would chose to apply with IAS 41 if it was not mandatory.



For the auditor Johansson his job with the forest companies has become more complex. Prior to the IAS 41 the value of the forest was the cost, but after the IAS a more complex calculating method is used.

4.3.2 Approach

According to the auditor all companies in this industry has agreed on one method and how to proceed with the valuation process. The normal valuing method used is discounted net cash flow. According to Olhans at Svea Skog that is the method everyone uses when it comes to valuing their forest properties. Under normal circumstances the forest properties are valued including the value of the land. But according to the IAS 41 only the standing forest should be accounted for, not the land it stands on. Olhans says:

"I mean, with a sale, its not possible to only sell the trees. We have to sell the land too".

The cash flow is calculated about 100 years in the future because the trees life cycle is estimated to that time. That is somewhat a modification of the time because in the south of Sweden the forest lives about 70 years, and in north for about 100 years, according to Almgren at Holmen. Almgren says that Holmen has most of its forest in the north and that is why they calculate it 100 years ahead. Next step in the valuing process is to conduct estimations on every post. How much forest the company owns and how far from logging it the company is. Estimations about revenues, price and what the cost is to manage the forest. The interest is commonly chosen to be long-term. The companies calculate for inflation and for cost development. The interest is re-tried every year but the companies choose a long-term interest with the intention to keep it the same.

All interviewees said that it does not exist an active market for the forest properties. An explanation to the none-existing active market is that the parts of the properties that are sold are not representative for the market. Some year's large areas of land and forest are sold, while other years not much is sold at all. It is possible to see what the hectare price is and multiply it with the number hectare owned. The auditor explains that the problem is that if you buy two million hectare the price is much different then if you just buy a hundred. In addition, there are no transactions made on that high level. No one that has been active in this discussion has seen a different method to use then the discounted net cash flow according to Johansson at Öhrlings. All the interviewees own and manage huge properties. To value the forest based on one small sale will not be representable. Further, it will also be misleading to base the fair value on the large sales because that is not representative either. That is why all companies use the discounted net cash flow model. Due to that reason the fair value is a yearly cash flow discounted with a WACC interest (Weighted average cost of capital).

4.3.3 Consequences

All interviewees could give a number of examples of what the consequences of IAS 41 are. For instance, higher value on the forest assets, effects on the result, larger balance sheet, more workload and more information in the disclosures.



According to Jonsson at SCA the consequences of IAS 41 for a legal person are none because the IAS/IFRS does not apply with the legal persons. For the group the effects are shown when it is adjusted. "Forest/land/trees" in the balance sheet and "Changes in values in growing trees" in the income statement. Jonsson says:

“Financially we double the value of land and trees compared to the cost. Before IAS 41 the value were 9 Billion SEK, and after 18!”

Olhans at Svea Skog describes the standard to only create trouble. In the group accounting it is one extra thing to include in the top level. Svea Skog has chosen to include one extra row in the income statement called "Changes in values in forest". One of the reasons for only including it as an extra row is so that the company still are able to show, what he refer to as, the normal result. All the financial goals in the company are based on the previous set of rules. For that reason it is important to show the result as it should have been with the old set of rules too.

All the interviewees brought up a specific issue as a problem: the changes in value effect the result, and the companies do not yet know how to handle it. One purpose with the fair value is not to include much subjective valuations in the process. For valuing an asset an active market works perfect. But in the case with the forest products companies there are no active market. The companies there for choose to discount the cash flow. There are three factors that effect the cash flow: the access of forest and logging, the price and costs, and the discount interest. The interest, the price and the cost effects the value allot. It also has a huge effect on the result. An effect which is seen both by the user and by the company. Further it is a noticeable difference for the company and for the shareholders.

On the questions if it is positive or negative effects the IAS 41 produce the answers were differing. All interviewees agreed that it has both positive and negative effects. Jonsson at SCA explains:

“Changes are always difficult before they are implemented. There were many hours consumed to think about, and to plan, the implementation. It was hard to get it to work. Now when everything is done, it is good. It gives a more true picture of the value in the company. Stocks for forest products companies has previously been valued with consideration to the concealed values in the forest properties, now the valuation is done on more visible values”

With the standard some new problems arises. One problem is that it is hard to make the estimations that has to be done. The interest, price, growth and other parameters has to be used, but they are all based on subjective estimations according to Jonsson at SCA. It should give a more real valuation compared to the cost, but if one small error is made in the estimations the effect on the numbers is huge. Jonsson says:



"It's hard to get an exact value on the growing forest"

Almgren at Holmen says that the factors can be changed and distorted and be direct misleading. It gives a huge effect if the interest is 0,5 % up or down, and the estimations has a great impact on the result. The result shows what are, if things turn out the way you estimate. It does not show what has happened. It is all depending on the estimations.

During the interview the interviewees were asked how the IAS 41 effects the income statement and the balance sheet. In the income statement a new post is included, the "changes in value"-post. A post which goes up and down. According to Olhans at Svea Skog the changes in value-post does not bring any usable information. But still the post is so big that it effects the result alot. Olhans explains:

"If the result is 1 MSEK and the changes in value is 0,5 MSEK the new result becomes 0,5 MSEK even if the real result is 1 MSEK".

Almgren at Holmen says that the one effect is that the value of the growing forest is increased. He gives an example:

"If the forest and forest land increases its value with 2,4 MSEK the corresponding increase is in equity with 1,7 MSEK and the latent tax debt increases with 0,7 MSEK. In the balance sheet this is a pure value increase. In the future Holmens results will be 70 – 80 MSEK higher"

4.3.4 Qualitative characteristics

The interviewees were asked how reliable they think the fair value is. The answers were differing. Jonsson at SCA says he thinks it is reliable. If the value is wrongfully estimated ten percent up or down, it is still within reasonable limits. He thinks the fair value is closer to the truth then the cost. Olhans at Svea Skog does not think the fair value is reliable at all. He says he sees it more like an indication. The valuation is done every time-period which leads to a change in value. Moreover, the price is based on a daily price level. Today's price level has nothing to do with the value in the future. Olhans says:

"We have chosen to call it market related value instead of market value to indicate that we don't think it is the fair value of the market value we calculate"

Almgren at Holmen thinks it is a somewhat reliable value. He says it is better then the other but not perfectly reliable either. He still feels it is more representatives then the cost. Johansson at Öhrlings says it is not a reliable value. It is a long cash flow and it can be ruled with the smallest methods. The IASB has made a statement whether they think it is a correct application or not. These are gigantic forest property assets, but there is no active market. Johansson says:



"What hits me is the danger with it. They discount on a time frame 70 - 120 years ahead. That means that if an interest on 3,25 % or 3,3 % is used it effects the result alot"

Comparability is one effect that the IASB wants from the IAS/IFRS regulations. The interviewees were asked about their opinions whether comparability between companies is better or worse with the IAS 41. Almgren at Holmen thinks the comparability is better now. He continues to explain that there are still alot of differences in the valuation process but it is more comparable now then prior to the IAS. Jonsson at SCA also thinks it is better while Olhans on Svea Skog doesnt think it has effected at all.

The interviewees were asked which of fair value and cost they think is the most reliable. The three interviewees representing a forest products company answered fair value while the auditor said the cost. Jonsson at SCA said that it has made the values visible, values that previously have been hidden. He thinks fair value is closer to the truth and that fair value is better. Almgren at Holmen says:

"Fair value is more reliable. The forest owners most likely bought their forest a long time ago. We bought our forest for 150 years ago, so the cost doesn't tell much about our assets value today"

Johansson at Öhrlings talks about cost and fair value:

"The problem is that the owners bought the forest such a long time ago that the cost is almost zero. That is not right from a financial point of view. With the fair value the assets is valued for millions SEK but the fair value also gives great risks. I think the fair value should be in the disclosures. To include it in the balance sheet gives way to much risks"

According to three interviewees the most relevant of fair value and cost is fair value. The auditor thinks the cost is the most relevant one.

During the interview the following question was asked: Do you think the financial reports show the company's financial transactions and financial development better or worse with fair value? According to all interviewees its shown better. But it gives space for subjective interpretations. Olhans at Svea Skog says:

"It should give a better picture of the activity and the assets in the company but I think it should be clearer how to proceed"

Almgren at Holmens gave an example:

"In Sweden we have to plant new forest plants after logging. In Sweden we there for has to include the cost of re-planting. According to the IAS that cost should be left out. After discussions with the auditors the companies in the forest industry agreed to include the cost anyway"



According to the representatives from the companies they value relevance more of relevance and reliability, whilst the auditor value reliability more. The auditor explains that he is very cautious, and that he is a follower by the conservative accounting methods. The common view is that the fair value gives a fair and just picture of the company's creation of value. The auditor thinks it gives a worse picture.

	Holmen	Svea Skog	SCA	PWC Öhrlings
How reliable is the fair value?	okay	not reliable	reliable	not reliable
Is the comparability: better or worse?	better	not effected	better	N/A
More reliable: cost or fair value?	fair value	fair value	fair value	cost
More relevant: cost or fair value?	fair value	fair value	fair value	cost
Valued more: reliability or relevance?	relevance	relevance	relevance	reliability
Just picture of the creating of value?	yes and no	yes	yes	no

Table 1; Illustration of the qualitative characteristics reliability and relevance. Made by the author.

4.3.5 Complex of problems

The interviewees were asked to refer to some problems with the IAS 41. Almgren at Holmen thinks it demands alot of extra work and that it is harder to present the value of the forest now then prior to the IAS 41. Johansson at Öhrlings says it is hard to establish the fair value. Jonsson at SCA says that one problem is that the analysts can take in all the new information, but the private person might think it is to complicated. Large values are now included in the balance sheet. But when the changes in the value are going up and down, the stake holders might not understand why it effects the result. Especially not when the result goes down. For instance, storms and fungus attracts might force a write-down of the value. These write-downs have a great effect on the result. The need for information is, for that reason, huge.

Three interviewees (Johansson, Jonsson and Olhans) said that they do not think that the IAS 41 is written for forestry in the Nordic countries. In the Nordic forestry the life cycle is longer then the 30 years which the IAS 41 refers to. Both interviewees think the standard fits better for animal breed and for plantages of smaller size.



Some of the advantages and disadvantages of the IAS 41 according to the interviewees:

Advantages:

closer to the truth
shows enormous value of the forest
more real picture of the value

Disadvantages:

based on assumptions and estimations
subjective
creates an exact value of assets that are not exact

The final question in the interviews were what risks the company are exposed to with the fair value. Olhans at Svea Skog could not see any risks. Jonsson at SCA gave his opinion:

"There is a risk that something's happens with the forest and the result gets effected. That effects the stock value too. We strive after stability and whilst the huge investors might understand what the change in value comes from I don't think the smaller investors will be as understanding"

4.4 The Interim Report January 1st to March 31st 2005

To see how the companies apply with the IAS 41 in common, and to see and what the consequences are on the financial reports, parts of the interim reports of the first quarter of 2005 is presented. Only the report of one company is chosebn because the purpose is merely to see some examples of the effects the IAS 41 has and not all the effects.

4.4.1 Holmen

Holmen's forest properties prior to the IAS/IFRS were valued to the cost adjusted for write-up's (Holmen.com). It is Holmen's estimation that there are no relevant market prices to be used when valuing the forest. The valuation is there for done by calculate the net value of the future expected cash flows from the growing forest. The calculation is done by the following 100 years, which is estimated to be the forests logging cycle. The cash flow is calculated from the logging volumes according to Holmens current logging plan and estimations about the future price and cost development. The costs for replanting have been included because its regulated in Swedish laws that logging must follow by replanting. The cash flows pre tax is discounted with a 6.25 percent interest.

The implementation of IAS/IFRS increases the values on the forest properties from 6301 MSEK to 8661 MSEK in 2004-01-01. The equity increases with 1678 MSEK. At the end of 2004 the value was decreased to 8622 MSEK. The changes in the value of the forest is accounted for in the income statement, which means that the net profit has increased with 60 MSEK. The cost for tax has increased with 17 MSEK, which is equivalent to the change in taxes on growing forest.

4.4.2 SCA

One of the more significant differences compared with 2004 is that the biological assets, growing trees, are valued and reported at fair value (sca.se). Fair value is calculated on the current value of the expected future cash flow from the asset according to IAS 41. In



the income statement SCA includes a row called "Depreciation and write-downs, properties and plant" in the first interim report of 2005. The post is -1,5 MSEK compared to -1,4 MSEK 2004.

4.4.3 Svea Skog

The group is mostly effected by the new set of rules considering the valuation of their forest properties to a market value (sveaskog.se). The market related value of the forest according to the IAS 41 can not be compared to the realized market values at sales of forest properties. The value is instead accounted as an income value, where future incomes from timber withdrawn after deduction for logging-, replanting- and other forest operation costs discounted to a net present value. The calculation is done by the following 70 - 120 years (depending where in Sweden the forest is located), which is estimated to be the forest logging cycle. By the discount of future revenues and costs an interest factor is applied. Svea Skog has chosen to use a discount interest, which is based on an overlapping average. This interest is the weighted average cost of capital (WACC).

(Svea Skogs report was chosen to be included in this thesis merely because only one could to be chosen due to the limited space). Changes in the value of the forest properties:

The market related value of Svea Skogs forest properties was 2005-03-31 21 342 MSEK. 2005-01-01 the value was 21 053.

Balance sheet:

MSEK	First quarter 2005	First quarter 2004
Changes in value – standing forest:		
Volume changes (net)	- 462	-27
Price-/cost change future harvest etc	-34	-124
Changes in discount interest	830	351
Total	334	200

In the income statement the changes in value of the forest is included with 466 MSEK.

Income statement:

	First quarter 2005	First quarter 2004
Changes in value of forestproperties	289	163
Acquisition of forest properties	-7	-10
Sales revenue sold forest properties	94	111
Other change	10	2
Sum	386	266
Changes in value on lying forest due to storm	80	-
Total	466	266



4.5 Summary

Representatives from Holmen, SCA, Svea Skog and an auditor from PWC Öhrlings has been interviewed for this thesis.

All of the interviewee's biological assets consist of forest properties and growing forest. According to the auditor all companies in this industry has agreed on one method and how to proceed with the valuation process. The normal valuing method used is discounted net cash flow. The cash flow is calculated about 100 years in the future because the trees life cycle is estimated to that time. Examples of consequences are for instance, higher value on the forest assets, effects on the result, larger balance sheet, more workload and more information in the disclosures. According to the representatives from the companies they value relevance more of relevance and reliability, whilst the auditor value reliability more.



Chapter 5 Analyze

In this chapter, an analyze of the data compiled from the Theoretical Framework in comparison with the result of the Empirical research of the thesis is done. The chapter is divided in similar categories as the Theoretical Framework.

5.1 The implementation of IAS 41

The Empirical Study is analysed on the basis of the Theoretical Framework.

5.1.1 Background

The empirical study shows that all companies complies with the IAS 41 since January 1st 2005, which is in agreement with the standard and the theoretical framwork of this thesis which state, the standard is mandotory from that date. Even though the representatives indicates that they accept the standard, their behaviour towards it shows a different point of view. If the standard was not mandotory the companies would not choose to apply with it. There are several reasons for the companies reluctance. The benefits with the standard does not exceed the costs to provide all the new information it demands. The companies express that the new standard forces them to put together and distribute financial information that is very costly to compile. In other words the cost is higher than the sum of all the benefits. Another reason is that the most people and companies are over all against big changes even though it might lead to improvements. It was said during one interview that the companies might be more positive towards the standard after they get used to the changes it demands.

5.1.2 Approach

According to the theoretical framework the best way to measure the fair value of the agricultural assets is the quoted market price on an active market. The empirical study shows that there are no active market for the forest properties. In other words, there is no quoted market price. The reason is that the forest properties that are sold are either to small or to big to give a just and fair picture of the price of the properties.

The empirical study shows that all companies use a discounted cash flow model. The cash flow is calculated 70 - 100 years ahead because that is the life cycle of the swedish trees. This procedure is in accordance with the theoretical framework that states that the discounted cash flow model is the best alternative, and the discount timeframe should be the same as the assets life cycle.

Because of some specific differences between the previous swedish set of rules and the IAS 41 some problems occure for the companies. The empirical study shows that the companies think some specific parts of the standard is especially hard to adjust to. Examples such as valuing the forest without including the land, cabin revenues, hunting-



and fishing licences were mentioned. According to the theoretical framework all revenues that do not have anything directly to do with the growing and standing trees must be excluded from the post. The empirical study shows that the companies comply with the specific areas as well, but with a lot of reluctance. The standard is a new way of thinking when it comes to valuing the properties. The Swedish rules were somewhat easier when because they valued according to merely the cost. Today the forest products companies must put a lot of time looking into what assets they have and what are comprised in the IAS 41.

5.1.3 Consequences

The average opinion is that the IAS 41 brought both positive changes and negative consequences for the companies. Most companies choose to create new posts in the financial reports. According to the theoretical framework that method is approved as long as the disclosures include all necessary information about the post and all the other requirements. The companies want the users of the financial reports to see what the result would be according to the old set of rules. By including the new posts the user can see what the changes in value are. Further, most companies have strategic and financial goals that they want to fulfill. The goals are put up according to the old set of rules and the companies therefore separate the IAS 41 regulated posts from the regular posts in the financial statements.

The empirical study shows that the companies have to make more subjective estimations and assumptions with the IAS 41 than with the old Swedish rules. The average opinion is that the discounted cash flow model is an insecure method to use for the companies because of the increased risks in the valuation process. The procedure is in accordance with the theoretical framework but the companies are still somewhat negative. Further, the discount period is very long which leads to an even more insecure value. The value that the companies calculate is the value of the forest today if it grows according to the estimations during the estimated time, price and cost. If the discount time was shorter the value would be more reliable. The interest rate is the single one factor that affects the value most. The interest rate is merely a subjective estimation. It is estimated of the knowledge and information the companies possess today. Many things may change in 70 - 100 years and that is the number one reason why companies feel the method is insecure.

The IASB's Framework emphasises that the accounting information should be relevant for the users and thereby useful. Further, the information must be accurate to be useful. For the information to be accurate it is important that the users can rely on the numbers presented, in other words that the accounting is free from errors and biases. In the matter of the forest products companies the value of the forest depends on several factors that may affect the outcome enormously. The discount interest makes the largest impact because of the long discount period. This indicates that the procedure is not fully in accordance with the Framework because it might include errors.



The empirical study shows that the companies are somewhat afraid of the effects even the smallest wrongful estimations have on the total value. According to the study the novelty and complexity of the IAS 41 is discussed all through the forest industry, the auditing firms and all the way up to the IAS Board. The IASB Framework states that the accounting has to be understandable and complete to possess a high level of quality. The two definitions of usefulness are not in accordance with each other, but they somewhat have the same significance. For comparability between companies it is of importance that the companies use the same methods, and for that reason the discussions are very important.

5.1.4 Qualitative characteristics

Financial information should be comparable and accurate to be useful. The IASB defines usefulness in terms of different characteristics that has to be fulfilled for the accounting information to achieve the demand on usefulness. The IASB states that useful accounting should be relevant and reliable. It is furthermore stated in the definition of usefulness that accounting information is relevant when it makes a difference in decision making and reliable when it is free from biases and errors. The IASB Framework states that the accounting has to be understandable and comparable to possess a high level of quality. Even though the two definitions of usefulness are not in accordance with each other, they somewhat have the same significance.

The fair value may be considered more relevant for some user. The reliability rises when the information provided is valid and reproduces the reality. One may ask if the fair value is a reproduction of reality and if the fair value is reliable (iasb.org). The cost is one hundred percent reliable because it is based on a transaction that took place in the past (Epstein 2003). The buyer got a receipt and the seller got the money.

In the empirical study the companies thoughts regarding reliability and relevance were examined. The empirical study shows that the companies opinion about the qualitative characteristics differs. The differences were merely between the auditor and the representatives of the companies. All the interviewees were very qualified and had plenty of knowledge about this subject. One explanation for the difference in opinion may be the interviewees different backgrounds. Since all interviewees had the same university degree the differences may occurred after they started working. The auditor is the one with most theoretical knowledge, complying to the laws unconditionally whilst the companies may have other agendas. The auditor said he is a person of a caution nature and the old set of rules fit better with his personal opinions. He was against the fact that the forest is valued by the value it might have in the future. For that reason he does not think the IAS 41 value is reliable or relevant. He compared it with any other asset which is not legal to value the asset to the price it might have in 40 years. According to the auditor the value is not relevant for many reasons:

- most of the properties are not to be sold in a very long time
- the method is based on unsecure estimations
- wrongful assumptions effects the value alot



The Framework states that information is reliable if it faithfully represents events and transactions. The empirical study shows that these criterias are fulfilled. Further, the information that use exercise judgement must be a degree of caution, in other words prudence. According to the theoretical framework the cost is the most reliable one in comparison with the fair value. The empirical study shows that the opinions differ in this matter. The auditor express´ that he thinks the reliability of infomations is important. He thinks that the information demanded of the IAS 41 is very unsecure and for that reason he thinks that the IAS 41 makes the reliability worse. Both qualities, relevance and reliability, are necessary for information to be useful to present and prospective investors and creditors.

The IASB Framework states that the timeline is an important component of relevance and significates that the information must be presented before it loses its capacity to influence decision makers. This criteria has been discussed in the theoritical framework and in the empirical study. The relevance of information is effected by its nature and materiality. The empirical study shows, according to three representatives, that the fair value is the most relevant in comparison with the cost. The auditor on the other hand does not agree, the cost is still the most relevant one. The IASB Framework want comparison and for that reason the fair value would be the most relevant one. Because using fair value all companies value the assets on the balance day. Contrary, the cost is based on a price that may have been payed decades ago. Relevance is about how usable the information is for the user. The auditors opinion is that the fair value is not at all relevant because most forest properties are never sold. This reasoning indicates that the opinions differs in order to what information might be used for.

The empirical study shows that the transactions and events are shown better now. The common view is that the fair value gives a just and fair picture of the circumstances and of the company's value. Contrary, the auditor entirely disagrees. Again, the auditor express that the events are shown as if they really has happend. If the value of the assets rises, the asset side in the balance sheet increases and so does the equity. But there has not occured any transactions at all, nor any events to lead the increas back to. The auditor feels that it may give the impression that the value of the company increases, when in reality no monetary funds has been effected.

5.1.5 Complex of problems

The empirical study shows that alot of problems arouse with the IAS 41. In the preface of the standards the IASB mentions that the implementation process might be difficult during the transaction. The companies problems may be in accordance with the difficulties expected by the IASB.

One change that the IAS/IFRS overall entails is the requirement for more information in the disclosures, which will entail more work for the companies. More work equals higher costs to put together and provide the information. In spite of this, the empirical study



shows that the general opinion amongst the companies is that it is positive that more information will be accessible in the disclosures. Further, in a smaller extent the companies were already including information of this kind in the disclosures but with the IAS 41 they now have to include some more.

The objectives of the IASB are to bring forward high quality, transparent and comparability to information in the financial statements. The standards brought about that the IASB will be internationally applicable, and consequently the international comparability will increase. The average opinion in the empirical study was that as long as all companies use the same methods the comparability between companies will increase. Further, there was a concern that the small investors and the share holders would not understand the varying results as an effect of the assets changes in value. This is an important aspect because of the information to be useful it must be understandable. If the users do not understand this aspect of the financial reports, it is not important at all whether the information is relevant or reliable. Relevance is the primary qualitative characteristic but if the user of the information does not understand it, it plays an insignificant part.

The changes in the forest assets value effects the result alot, and the companies are uncertain how to handle it. The IASB already made its statement concerning this matter but the forest industry feels ignored. The companies feels that it is wrong to make the standard mandotory when no other IAS or IFRS are mandotory. The empirical study shows that the industry wants another solution, and the discussion goes on. Since the IASB revise the standards continously the discussion might lead up to a revision that is beneficiary for the forest industry.

5.2 The Interim Report January 1st to March 31st 2005

The empirical study shows that all companies use the discounted cash flow method with some alterations. All methods used are in accordance with the theoretical framework.

According to the theoretical framwork of this thesis the changes in fair value should be presented in the face of the income statement, ideally broken down between groups of biological assets. The effects, on both the balance sheet and the income statement, are huge. This effect is the single one reason that makes the companies not wanting to use the standard methods. Since the standard is mandotory, the companies can not choose how to value their forest properties.

Key ratios that are effected by the new set of rules is for instance the shareholders equity, all ratios that includes the result and all ratios that includes the equity. The debt / equity is for example effected since an increase of the value in the forest properties leads to an increase in the equity as well. The debt is not effected which means that the debt / equity relation gives a better picture than it really is.



For the annual report there are more changes to adjust to. The regulations are not as strict when compiling the interim reports as the annual reports. The companies must be prepared for a longer compiling time, include more information in the financial statements and in the disclosures, detailed valuating process descriptions, and a one off effect on the result. The first year the companies will have a positive effect on the result, but next year they might have to adjust the value which may effect the result in a negative way.

5.3 Summary

The Empirical Study is analysed on the basis of the Theoretical Framework. According to the theoretical framework the best way to measure the fair value of the agricultural assets is the quoted market price on an active market. The average opinion is that the IAS 41 brought both positive changes and negative consequences for the companies. The empirical study shows that the companies has to make more estimations and assumptions with the IAS 41 then with the Swedish rules. The IASB's Framework emphasises that the accounting information should be relevant for the users and thereby useful. The empirical study shows that the companies opinion about the qualitative characteristics differs. The differences were merely between the auditor and the representatives of the companies. The IASB Framework states that the timeline is an important component of relevance and signifies that the information must be presented before it loses its capacity to influence decision makers. This criteria has been discussed in the theoretical framework and in the empirical study.



Chapter 6 Conclusion

In this final chapter, the conclusions of the analysis is conducted. By referring to the problem definition and the purpose of the thesis in the research questions are answered. Further proposals to future research in the subject are provided last in the chapter.

6.1 Conclusions

In accordance with the purpose the companies' perceptions about the IAS 41 is concluded. The study is providing a cross section of the forest product companies' perception of the IAS 41 today. There are limitations in time because the interviews were held within just one week time frame. As presented in the Theoretical Framework and in the Empirical Studies the IAS 41 is a complex standard for the forest products companies to adjust to. According to the empirical study the companies representatives all expressed that more detailed descriptions of the methods to use would be preferable. The three sub questions are answered first.

How do companies value their forest properties?

The valuing method used is discounted net cash flow. The calculation is done by the following 70 - 100 years. The cash flow is calculated from the logging volumes according to the company's current logging plan and estimations about the future price and cost development. The cash flows pre-tax is discounted with a 6.25 percent interest.

How do companies value their assets if an active market does not exist?

An active market does not exist. The companies have a silent understanding and agreement that they all use a discounted net cash flow model.

What is more important: reliability or relevance?

The three representatives from the companies think relevance is more important while the auditor thinks the reliability is more important. The IASB has, with the Standards, shown that they think the relevance of the value is more important then hundred percent reliability.

According to the theoretical framework the cost is the most reliable one because the fair value is not based on prudent estimations and assumptions. The value based on transactions that already has taken place is reliable.

The three interviewees representing a forest products company expressed that fair value is more reliable while the auditor said the cost. Fair value is more important because it



can effect a decision, but it is not completely reliable. The cost is one hundred percent reliable, because it has already taken place, but it does not give a just picture of the company's value and might effect decisions wrongfully.

The answer of the three sub questions leads up to answering the main question of this thesis:

What is the forest products companies' perception of the IAS 41 today?

The empirical study shows that the interviewee's opinions about the IAS 41 are all similar. None of them expressed that any company would choose to apply with the IAS 41 if it was not mandatory. This indicates that the overall perception is somewhat negative.

The companies are still discussing how to handle the standard in their financial reports. The changes in value effects the result, and the companies does not yet know how to work with that.

The empirical study shows that it is hard to make the estimations that has to be carried out. The interest, price, growth and other parameters in included in the calculations but they are all based on subjective estimations. Another interviewee said that the factors can be changed and distorted and be direct miss-leading. The result axcounted for according to the standards, shows what will be if everything turn out the way the companies estimate.

The common opinion is that the IAS 41 demands alot of extra work and that it is harder to present the value of the forest now then prior to the IAS 41. Further, that it is hard to establish the fair value. The auditors expressed that his job with the forest companies has become more complex. Another problem is that the analysts understand all the new information, but the private person might think it is to complicate. Bigger values are shown in the balance sheet. But when the value is going up and down the stake holders might not manage the effect the change in value has on the result. Especially not when the result goes down. The custom opinion is that the IAS 41 is not written for forestry in the Nordic countries.

6.2 Suggestions for Further Research

Due to the current interest in this topic, it would be interesting to follow up the outcome of the consequences and perceptions of the IAS 41 at a later time. Perhaps to see how the forest products companies' perception is after one more year. It would also be interesting to see the custom methods used in the financial reports such as in the Annual Report 2005.

Also, one suggestion for further research would be to look at another aspect within the IAS 41 today. What do the users of the financial reports think about the IAS 41? The user



can be analysts, share holders and other investors. The fourth suggestion is to look at other companies effected by the IAS 41 such as animal breeders or cultivating companies. Finally, it would be interesting to see how the discussion about reliability and relevance goes on. To conduct a study about merely those two qualitative characteristic would be of great interest.

6.3 Summary

An active market does not exist so the valuing method used is discounted net cash flow. The three representatives from the companies think relevance is more important while the auditor thinks the reliability is more important. The empiricals study show that the interviewee's opinions about the IAS 41 are all similar. None of them expressed that any company would choose to apply with the IAS 41 if it was not mandatory. This indicates that the overall perception is somewhat negative. One suggestion for further research would be to look at another aspect within the IAS 41 today.



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SCA Interim Report January 1st – March 31st 2005

Stora Enso Interim Report January 1st – March 31st 2005

Stora Enso Annual Report 2004

Svea Skog Interim Report January 1st – March 31st 2005

Interview

Telephone interview:

May 4th 2005

Olhans Björn, Forrest Accounting

Svea Skog

May 6th 2005

Almgren Anders, Group Controller

Holmen

May 9th 2005

Jonsson Patrik, Forrest

SCA

May 10th 2005

Johansson Martin, Auditor

PWC Öhrlings



Appendix 1 IFRS/IAS Standards

IFRS and IAS Standards

IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 2 Share-based Payment

IFRS 3 Business Combinations

IFRS 4 Insurance Contracts see also: IFRS 4 Frequently asked questions and Projects relating to Financial Instruments

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IAS 1 Presentation of Financial Statements

IAS 2 Inventories

IAS 7 Cash Flow Statements

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 Events After the Balance Sheet Date

IAS 11 Construction Contracts

IAS 12 Income Taxes

IAS 14 Segment Reporting

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 18 Revenue

IAS 19 Employee Benefits

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

IAS 21 The Effects of Changes in Foreign Exchange Rates

IAS 23 Borrowing Costs

IAS 24 Related Party Disclosures

IAS 26 Accounting and Reporting by Retirement Benefit Plans

IAS 27 Consolidated and Separate Financial Statements

IAS 28 Investments in Associates

IAS 29 Financial Reporting in Hyperinflationary Economies

IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions

IAS 31 Interests in Joint Ventures

IAS 32 Financial Instruments: Disclosure and Presentation see also: See also Financial Instruments - other issues

IAS 33 Earnings per Share

IAS 34 Interim Financial Reporting

IAS 36 Impairment of Assets

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

IAS 38 Intangible Assets

IAS 39 Financial Instruments: Recognition and Measurement see also: See also Financial Instruments - other issues

IAS 40 Investment Property

IAS 41 Agriculture



Appendix 2 Primary letter for interviews

Introduktionsbrev intervjuer

Göteborg 2005-XX-XX

Ämne: Handelshögskolan Kandidatuppsats IAS 41 biologiska tillgångar

Hej!

Mitt namn är Angelica Burnside och jag studerar Företagsekonomi på Handelshögskolan vid Göteborgs Universitet. Jag har relativt nyligen börjat med min kandidatuppsats på utbildningen Externredovisning på C/D-nivå. Uppsatsen handlar om effekterna av IAS/IFRS' införande på börsbolagens redovisning med specifik inriktning på IAS 41 biologiska tillgångar.

Uppsatsen kommer att i första hand läsas av andra studenter på Handelshögskolan, men när den är färdigställd kommer den även att publiceras genom skolan och bli tillgänglig för allmänheten.

Det skulle vara till stor hjälp för min undersökning om jag fick lov att få förmånen att genomföra en personlig intervju.

Om du har möjlighet att vara med så bifogar jag i nästa skede ett förarbete med frågorna som kommer att ligga till underlag för intervjun. Om det skulle vara svårt för dig att träffas så finns det andra alternativa lösningar då jag är oerhört intresserad av dina reflektioner i ämnet.

Jag tackar ödmjukt för visat intresse och hoppas att jag får tillfälle att höra av dig snart!

Vänligen,
Angelica Burnside
Telnr...
E-mail adress.....



Appendix 3 Company interview questions

Intervjufrågor skogsföretag

Undersökningen syfte är att få en inblick i hur företagen i praktiken anpassar sin redovisning till IAS 41. Din medverkan är självklart frivillig, och det du berättar kommer att användas till det empiriska materialet. De uppgifter du lämnar kommer inte att användas i något annat syfte än just denna undersökning. Undersökningen kommer att i ett sammandrag, som bilaga i uppsatsen, att finnas tillgänglig för andra elever på Handelshögskolan. Då elevuppsatser är offentliga handlingar så finns den även tillgänglig för allmänheten. Om det är någon information du vill att jag utelämnar den skriftliga sammanställningen av intervjun så är det inte något problem.

Bakgrund intervjuperson:

0. Namn, Titel, Företag, Arbetsuppgifter, Antal år i företaget, Utbildning, Bakgrund, Kompetens.

Bakgrund:

1. Vad består era biologiska tillgångar av?
2. Vilken reaktion var det inom branschen skogsbruk när standarden fastställes?
3. Tror du att lika många företag hade valt att applicera verkligt värde värdering om det var frivilligt?

Tillvägagångssätt:

4. Hur värderar ni era biologiska tillgångar?
5. Hur fastställs tillgångens verkliga värde?
6. Vilken värderingsmetod skulle vara mest troligt att ni skulle använda er av om en aktiv marknad inte finns?

Effekter:

7. Hur påverkar värdering till verkligt värde er redovisning?
8. Är det en positiv eller en negativ effekt som IAS 41 fört med sig?
9. Hur påverkar IAS 41 företagets resultat- och balansräkning?

Kvalitativa egenskaper:

10. Hur tillförlitlig anser du att det verkliga värdet är?
11. Blir jämförbarheten mellan företagen bättre eller sämre, enligt din åsikt?
12. Vilken värderingsmetod anser du är mest tillförlitlig av anskaffningsvärde och verkligt värde?
13. Vilken värderingsmetod anser du är mest relevant av anskaffningsvärde och verkligt värde?
14. Vad värderar du högst, tillförlitlighet eller relevans?
15. Anser du att redovisningen visar upp företagets ekonomiska händelser och utveckling bättre eller sämre med värdering till verkligt värde?
16. Anser du att det verkliga värdet ger en rättvis bild av företagets värdeskapande?



Problematik:

17. Vilken problematik ser du med IAS 41?
18. Vilka för- respektive nackdelar anser du att IAS 41 har?
19. Vilka risker utsätts företag vid värdering till verkligt värde (fluktuationerna i värdet blir större med värdering efter verkligt värde i enlighet med IAS 41)?



Appendix 4 Auditor interview questions

Intervjufrågor revisor

Undersökningen syfte är att få en inblick i hur företagen i praktiken anpassar sin redovisning till IAS 41. Din medverkan är självklart frivillig, och det du berättar kommer att användas till det empiriska materialet. De uppgifter du lämnar kommer inte att användas i något annat syfte än just denna undersökning. Undersökningen kommer att i ett sammandrag, som bilaga i uppsatsen, att finnas tillgänglig för andra elever på Handelshögskolan. Då elevuppsatser är offentliga handlingar så finns den även tillgänglig för allmänheten. Om det är någon information du vill att jag utelämnar den skriftliga sammanställningen av intervjun så är det inte något problem.

Bakgrund intervjuperson:

0. Namn, Titel, Företag, Arbetsuppgifter, Antal år i företaget, Utbildning, Bakgrund, Kompetens.

Bakgrund:

1. Hur har IAS 41 påverkat dina arbetsuppgifter?
2. Vilken reaktion var det inom bolaget när standarden fastställes?
3. Tror du att lika många företag hade valt att applicera verkligt värde värdering om det var frivilligt?

Tillvägagångssätt:

4. Hur värderas de biologiska tillgångarna?
5. Hur fastställs tillgångens verkliga värde?
6. Vilka värderingsmetoder använder företagen om en aktiv marknad inte finns?
7. Vad är dina kommentarer till att företagen enligt IAS 41 inte får ta med återplanteringskostnaden i Point-of-Sale cost?

Effekter:

8. Hur påverkar värdering till verkligt värde företagets redovisning?
9. Är det en positiv eller en negativ effekt som IAS 41 fört med sig?
10. Hur påverkar IAS 41 företagets resultat- och balansräkning?

Kvalitativa egenskaper:

11. Hur tillförlitlig anser du att det verkliga värdet är?
12. Blir jämförbarheten mellan företagen bättre eller sämre, enligt din åsikt?
13. Vilken värderingsmetod anser du är mest tillförlitlig av anskaffningsvärde och verkligt värde?
14. Vilken värderingsmetod anser du är mest relevant av anskaffningsvärde och verkligt värde?
15. Vad värderar du högst: tillförlitlighet eller relevans?
16. Anser du att redovisningen visar upp företagets ekonomiska händelser och utveckling bättre eller sämre med värdering till verkligt värde?



17. Anser du att det verkliga värdet ger en rättvis bild av företagets värdeskapande?

Problematik:

18. Vilken problematik ser du med IAS 41?
19. Vilka för- respektive nackdelar anser du att IAS 41 har?
20. Vilka risker utsätts företag vid värdering till verkligt värde (fluktuationerna i värdet blir större med värdering efter verkligt värde i enlighet med IAS 41)?