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Assessing the effect of transition to IFRS on equity

-The case of NASDAQ OMX Stockholm

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Abbreviations

IFRS	International financial reporting standards
IAS	International accounting standards
SGAAP	Swedish GAAP
SEC	Securities and Exchange Commission
IFRIC	International Financial Reporting Interpretations Committee
IASB	International accounting standard board
EU	European Union
EEA	European economic area
CESR	committee of European stock exchange regulators

Abstract

Assessing the effect of transition to IFRS on equity: the case of NASDAQ OMX Stockholm

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This paper examines the effects of transition from Swedish GAAP to international financial reporting standards (IFRS) on big and medium-sized listed companies' equity in Stockholm NASDAQ OMX. Due to process of worldwide harmonization of accounting standards, the European commission has made reporting according to IFRS compulsory. First annual reports according to IFRS released on 2006 and lots of research had been expected on the effects of this transition. This paper is of this kind of research with the purpose of monitoring the effects of transition to IFRS on equity and balance sheet line items of large and medium –sized listed companies in Sweden. While a general positive trend in equity is documented, the individual changes in balance sheet line items are of particular importance and relevance in the empirical finding section of the research. The contributions of this research- considering its enormous samples- make it a very useful practical guide for Swedish companies who plan to get listed in stock markets and change from Swedish GAAP to IFRS.

1. **Introduction:**

This chapter gives an introduction of the thesis. First, the background of subject will be presented. Then, research questions are stated. In the next section, the purpose and scope of study will be presented. To conclude this chapter, there is an overview of research. Overall intention with this chapter is to give a synopsis of the chosen research area as well as general overview of thesis.

1.1. **Background:**

International accounting standards (IAS), currently renamed international financial reporting standards (IFRS), are gaining worldwide acceptance and approval. A major breakthrough came in 2002 when the European Union legislated that as of January 1st, 2005 all publicly traded companies within the European Economic Area (EEA), including Sweden, should transit from their local GAAPs to IFRS for financial reporting. The introduction of International Financial Reporting Standards (IFRS) for listed companies in many countries around the world is one of the most significant regulatory changes in accounting history. Over 100 countries have recently moved to IFRS reporting. The topic of IFRS implementation in Europe was of primary importance, especially in 2006, when for the first time, about 7,000 European listed companies reported their 2005 consolidated figures under IFRS. Many consider the adoption of IFRS in Europe as the most revolutionary financial reporting development since Pacioli's double-entry bookkeeping, even more revolutionary than the adoption of the Fourth or Seventh EU Directive.

Even the U.S Securities and Exchange Commission (SEC) has considered allowing foreign private issuers to enter the US capital markets using IFRS compliant financial statements (without reconciling to US GAAP), which came as a surprise to many in the international financial circles and was considered a historic move on the part of the US SEC; some even believe that this favorable nod by the US SEC to the IASB standards undoubtedly paved the way for further acceptance of IFRS globally (Mirza Abbas , 2008,p.362) .IASB is expecting that the implementation of IFRS enhances the comparability of financial statements, improves corporate transparency, increases the quality of financial reporting and consequently benefits investors. Michal Prada, chairman of the Technical committee of IOSCO, in his keynote address at a round table on global accounting convergence sponsored by the Financial Stability Forum held in Paris in February 2006, had made the following interesting observations about the global acceptance of IFRS vis-à-vis other recognized international standards such as US GAAP(Mirza Abbas, 2008,p362):

- … "Out of a worldwide market capitalization totaling over 36 trillion US dollars at the end of 2005, 11 trillion US dollars correspond to markets where IFRS are either required or permitted and 17 trillion US dollars to markets where US GAAP is the rule; out of the balance,4 trillion US dollars correspond to Japanese GAAP;

- … "However, in terms of the largest companies included in the coveted "Fortune 500" listing for that year, 176 prepared their accounts under US GAAP, 81 entities prepared their financial statements under Japanese GAAP but 200 conglomerates used IFRS".

Also worthy of mentioning, Martin Hoogendorn(2006) in his annual EAA congress address mentioned about ten observations regarding first implementation of IFRS in Europe. Some of his observations are quoted here which give more insights into the transition and which, are of particular relevance to the aim of this research:

- *"…Listed entities have underestimated the complexities, effects and costs of IFRS: Most entities started the IFRS conversion processes some time ago, but preparing full IFRS financial statements has taken much more time than expected. As an auditor I have received first drafts that were intended to be in compliance with IFRS, but where I had around 300 points of comment. Furthermore, entities report high costs of compliance."*

- *"…There is an area of tension between a principles-based interpretation of IFRS and a rules-based interpretation. Trying to avoid diversity in practice results in a rules-based approach. If IFRS leaves room for judgment and interpretation, some diversity in practice is unavoidable. Under a principles-based approach, the test is not whether accounting treatments are identical but whether they are appropriate in the particular circumstances. So if the International Accounting Standards Board (IASB) or the securities regulators want to avoid diversity in practice, the only solution would be to have more and more detailed rules or official International Financial Reporting Interpretations Committee (IFRIC) interpretations."*

- *"…The adoption of IFRS results in an immense increase in comparability of European listed companies. But huge diversity in practice will remain in the 2005 consolidated figures. Because the Fourth and Seventh EU Directives were rather broad and permissive, significant differences in accounting policies and practices in the 25 European countries existed. IFRS has eliminated many of these differences and that is an enormous contribution to comparability. But with so many possible interpretations of existing standards, and with differences in first-time adoption, it is an illusion to even think that diversity in practice will disappear, despite the coordination efforts of the auditors. After all, the financial statements are to be prepared by the companies and they have to make their own interpretation – the auditor's role is limited to assessing whether the interpretations applied by the company are in compliance with IFRS. An important contribution to diversity is furthermore that the countries in*

> *Europe come from different accounting cultures and their interpretations will be partly influenced by their history and previous practice."*

- *"…Significant differences between companies that may not be visible from the financial statements will arise as a result of the fair value and impairment approaches in IFRS. One of the most dramatic shifts in European accounting as a result of the adoption of IFRS is the move towards more fair value accounting, including the goodwill and intangibles impairment approaches. This involves subjective estimates of future cash flows. Many estimates are entity specific and there is sometimes a large range of acceptable amounts. This results in unavoidable lack of comparability".*

- *"…IFRS is too complex, even for auditors and other specialists. Financial statements will be difficult to read and understand for most users. You are all experts. I challenge you to understand everything. On average, I estimate that, as a result of IFRS, financial statements have increased by at least 20–30 pages."*

The remarks in this address gave a richer picture of first-time transition to IFRS which is the main subject of this paper in the context of Sweden.

Hence, the first hallmarks of this transition, showed its effect on line -items of consolidated financial statements. In this paper; early evidence on the effect of this transition on the equity figures of companies, listed in Stockholm stock exchange, are provided.

1.2. Research questions:

Nobes(2006), recognized a need for documenting the starting point of changes to IFRS, considering that the changes made at the transition (first approval) can have a long-term effect on IFRS financial statements. This paper tries to provide that documentation for Sweden. To document these changes, a number of research questions are presented. There were some speculations about the effect of transitions to IFRS on the figures in the balance sheets. At this point, the effect on net assets (equity) is illuminated.

> *Question one*: By adoption of IFRS, what would be the effect on equity figures of companies transited from SGAAP to IFRS?

Changes in balance sheet figures not only effect the perception of investors about the financial position of companies, but also affects contractual obligation of companies. Ormrod and Taylor (2004) discussed that the change in accounting basis to IFRS can have

unexpected consequences for reported figures that were unrelated to economic transactions done by companies. In turn, these new figures can lead the company (e.g.) to breach the loan contract. Ormrod and Taylor (2004) provide an example of the need to increase the level of provision for deferred tax (on revalued buildings) under IFRS compared with UK GAAP. This will have significant effect on the companies' liabilities and related ratios. Considering the latter, the second research question is brought out:

> *Question two*: What would be the effect of transition to IFRS on individual balance sheet line items?

The committee of European stock exchange regulators (CESR) recommended that companies should explain the process of transition from their local GAAPs to IFRS and should provide information about major differences recognized under existing accounting policies and IFRS. Equally important, the Stockholm Stock Exchange has recommended to publicly listed companies to provide details of the most important differences between the company's current accounting principles and IFRS principles that would be applied as from 2005, together with a quantitative review of the most important items in terms of size, with information about how the net income and financial status for 2004 would have been affected if IFRS had been applied instead of the current accounting principles. The third question revolves around this recommendation.

> *Question three*: Bearing in mind this recommendation, do the areas of difference identified in Swedish companies' annual reports match those about which users were forewarned in previous annual reports?

There is a whole lot of discussions regarding effects of particular standards on financial statements particularly balance sheets. The fourth question draws on its content from these discussions.

> *Question four*: What is the effect of individual standards on balance sheet?

The difference between question four and question two lies in the fact that, question four focuses on recognition and measurement issues, but question two also encompasses changes in classification.

1.3. Purpose:

The purpose of this research paper is to investigate how transition to IFRS from Swedish GAAP has affected the financial statements of large and medium size entities in Stockholm stock exchange. Extensively, this paper tries to fill the lack of prior research on first-time adoption of IFRS in Sweden and provide insightful empirical findings by exploring huge sample of companies, making the findings of research as a practical guide for business community.

1.4. Delimitations:

The research is limited to large and medium sized entities listed at OMX Nordic Stockholm (135 companies). Additionally, the research will focus on companies that had used Swedish GAAP before transition to IFRS and had been listed on the financial year 2005. The companies that had been listed after the financial year 2005 got deleted from the sample, on the grounds that they had to comply with different set of standards. Moreover, study does not intend to compare SGAAP with IFRS-as its first intention- but, it tries to illuminate what happened after transition to IFRS. To put it in another words, it answers what happened, not why happened!

1.5. Thesis outline:

Figure 1: Thesis outline

Chapter one: Introduction

This chapter gives an introduction of the thesis. First, the background of subject will be presented. Then, research questions are stated. In the next section, the purpose and scope of study will be presented. To conclude this chapter, there is an overview of research. Overall intention with this chapter is to give a synopsis of the chosen research area as well as general overview of thesis.

Chapter two: theoretical framework:

In this chapter, theories which are relevant to the research questions are presented .They give insight for answering the research questions brought up in the introduction section and act as primary tool for analyzing empirical findings.

Chapter 3: method

In this chapter, some methodological choices that were faced during research are presented. Additionally, an explanation of the scientific method that was used is provided. Subsequently, it is demonstrated how the data was collected .Sampling related issues are followed and analyzed. Thereafter, practical problems encountered during research are clarified and finally chapter reaches its final part by discussion about reliability and validity of research.

Chapter 4: Empirical findings

This chapter discuses the empirical evidence that are collected mostly form reconciliations from SGAAP to IFRS in annual reports of companies across our sample. Statistical tests are supplemented to give richer pictures of findings.

Chapter five: Analysis

This chapter includes an analysis of the empirical data, presented in chapter 4. The basis for analysis is the research questions that are stated in chapter one in relation with theoretical framework in chapter 2.A statistical test in supplemented to enrich the analysis and give insight for final conclusion.

Chapter 6: Final conclusion

This chapter demonstrate the conclusion the author draw and give a overall answer for all research questions and also recap the most important findings presented in two previous sections. Furthermore, suggestion for further research is presented.

2. **Theoretical framework:**

> *In this chapter, theories which are relevant to the research questions are presented .They give insight for answering the research questions brought up in the introduction section and act as primary tool for analyzing empirical findings. After all relevant theories are presented; prior studies on similar topic are illuminated.*

Theory is a set of tentative explanations with which to justify diverse observation (Smith, 2003, p 39-53). Research needs a theory to have some justification for expecting a relationship to exist. The source of most theory in accounting research comes not from the accounting literature but from the economics (and finance), behavioral and sociology literature (Smith, 2003, p39-53). In this paper, following relevant theories, as a basis for answering research questions, are provided:

2.1. **Signaling theory:**

In economics, more precisely in contract theory, signaling is the idea that one party (termed the agent) conveys some meaningful information about itself to another party (the principal). Signaling took root in the idea of asymmetric information (a deviation from perfect information), which says that in some economic transactions, inequalities in access to information upset the normal market for the exchange of goods and services. Smith and Taffler (2000) use signaling theory to examine the nature of corporate disclosures, in the expectation that firms will behave in a manner that 'signals' to the market that they are high achievers and are adopting industry best practice. They use this as a basis to establish a formal hypothesis, for subsequent testing that the positive content of corporate narratives will be directly associated with the financial performance of company. A number of signals have been suggested that are relevant to accounting (Scott, 2003, p 422-425). One such signal is *direct disclosure*. Huphes (1986) showed how such information can be a credible signal. In her model, a manager wants to reveal his or her expectation of firm value, by making a direct disclosure at the beginning of the period. Investors observe the firm's cash flow at the end of period. They then infer the probability of the realized cash flow contingent on the manager's disclosure. For example, if the manager disclosed a high firm value but cash flow is very low, investors will assess a high probability that the disclosure was untrue, and penalties will be applied. Knowing this, the manager is motivated to report truthfully, so that in equilibrium investors can correctly infer his or her expectation of firm value.

A variety of *indirect signals* has been studied to further understand disclosure issues. As Leland and Pyle (1977) show for an entrepreneur going public, the proportion of equity retained is a signal, because it would not be rational for bad-news manager to retain high equity position.

Accounting policy choice has also signaling properties. For example, a firm may adopt a number of conservative accounting policies. A high-type firm (e.g. with superior performance), can do this and still report profits, while a low-type firm would report losses. It should be noted that, for signals to be applicable, the manager must have a choice. This argument, that standards (e.g. IFRS) to enforce uniform accounting policy destroy manager's abilities to signal, is important for standard setting. However, the vital point in this theory which is related to the discussion of this paper is that, even accounting policy choices available within one set of standard like IFRS, have signaling potentials.

2.2. Market-based incentive for information production theory:

Private incentives for managers to produce information about their firms also derive from market forces (Scott, 2003). Several markets are involved. The managerial labour market constantly evaluates manager performance. As a result, managers who release false, incomplete, or biased information will suffer damage to their reputation. IFRS could be used as a vehicle for attaining high quality financial statements.

Similar incentives are provided by capital markets. Managers are motivated by reputation and contracting considerations to increase firm value. The reason is that more information, by reducing concerns about adverse selection, increases investor confidence in the firm, with the result that the market prices of securities rise or, equivalently, its cost of capital will fall, given that other things being equal. Another market that disciplines managers is the takeover market, also called the market for corporate control: If the managers do not increase firm value, the firm may be subject to a takeover bid, which, if successful, frequently results in replacement of manager. Consequently, the takeover market also motivates managers to increase firm value, with implications for information production similar to those of managerial labour and capital markets.

All the theoretical arguments in this section predict that the securities market will respond positively to increased disclosure. There are some empirical studies to justify this prediction. The Merton model which was tested by Lang and Lundholm (1996) and Healy, Hutton, and Palepu (1999) tested the implications of the Diamond and Verrecchila model(1991). They found that firms with improved disclosure ratings were associated with significantly improved share price performance in the year following the rating increase, compared to other firms in their same industry. This paper uses this theory in a way that, IFRS is regarded as vehicle for increased disclosure.

2.3. IASB conceptual framework and qualitative characteristics:

The reporting of information that is useful to rational investors is called the decision usefulness approach. This approach underlies the pronouncements of major standard setting bodies, such as conceptual framework of IASB. The conceptual framework of IASB deals with objective of financial statements, the qualitative characteristics that determine the usefulness of information in financial statements, the definition, recognition and measurement of the elements from which financial statements are constructed and concepts of capital and capital maintenance. According to this framework, the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. Underlying assumptions in this framework is accrual basis and going concern. The four principal qualitative characteristics are understandability, relevance, reliability, and comparability.

Figure 2: IASB conceptual framework
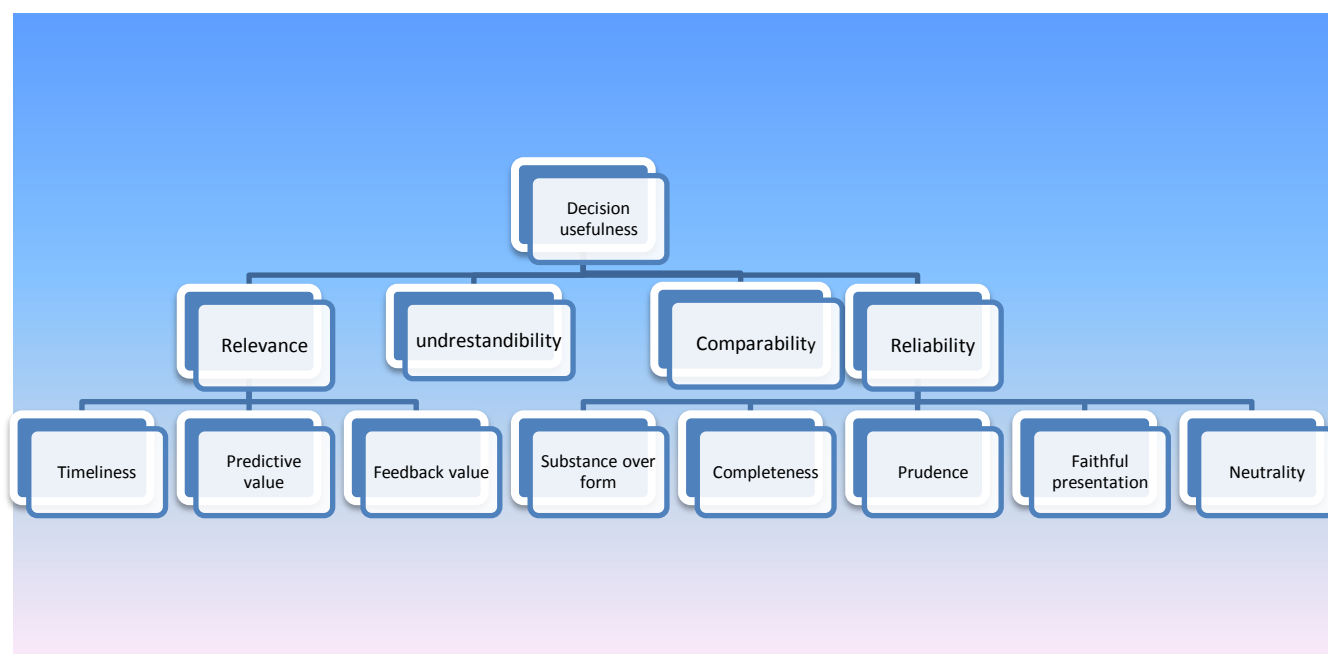
 Additionally, IASB stipulates that there should be a balance between these qualitative characteristics. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment (Stolowy, 2002, p32).However; there are constraints on relevant and reliable information. These constraints are timeliness and benefits/cost relation. If there is undue delay in the reporting of information, it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. The other constraint is that the benefits derived from information should exceed the cost of providing it. It is worth mentioning that IASB conceptual framework is undergoing changes to the

extent that the proposed improvement of the framework excludes prudence or conservatism as desirable qualities of financial reporting information (Hallman, 2008).

2.4. First time adoption of International financial reporting standards (IFRS1):

When an entity that reports under an accounting framework other than IFRS decides to transfer to IFRS it has to comply with certain requirements on conversion to IFRS, these requirements are prescribed in IFRS 1: First-time adoption of IFRS. This standard has gained phenomenal importance in recent years due to considerable popularity of IFRS globally. Since IASB makes it incumbent upon all new adopters of IFRS to compulsorily to pass the "IFRS 1 test" on conversion to IFRS, this standards gains more importance by the day as more countries are adopting IFRS as their national accounting standards. This standard had a pivotal practical significance for many companies when they first transferred to IFRS. In 2005 when more than 8,000 listed companies in Europe adopted IFRS for the first time in their consolidated financial statements, this standard was extensively referred by these first-adopters. Clearly, when companies are preparing to adopt IFRS for the first time, they need to fully comprehend and apply IFRS1.

2.4.1. History of IFRS 1 up to the point of the time of this research (April 2009):

Before promulgation of IFRS 1, the subject of first-time adoption of IFRS was addressed by an interpretation of IAS 1, namely SIC 8, that were issued by the former Standing interpretation Committee (SIC) of the international Accounting standards Committee (IASC), the predecessor standard-setting body of IASB. Considering this issue, it was called SIC 8: First-time Application of IAS as the Primary Basis of Accounting. Being an interpretation of standard, the guidance in SIC was rather limited and not as detailed as IFRS 1.Aftewards, due to importance of this issue, IASB issued a separate standard for it on June 2003.The effective date of this version of IFRS 1 was 1st January ,2004 which in this research is regarded as the date of transition to IFRS .In other words, companies were supposed to make a IFRS reconciliation in their 2005 annual reports for the financial year 2004 and show the effects of transition from their local GAAP to IFRS. These reconciliations [1]are the primary source of data gathering in this research. On June 2005, IASB made a small amendment to IFRS 1 relating to IFRS 6, exploration for and evaluation of mineral resources. This amendment specified that an entity that both (a) adopts IFRS for the first time before 1 January 2006 and (b) applies IFRS 6 before that date is exempt not only from providing comparative prior-period disclosures but also from applying the recognition and measurement requirements of IFRS 6 in the prior comparative period. On May 2008, IFRS 1 amended for cost of a subsidiary in the separate financial statements of a parent on first-time adoption of IFRS relating to IAS 27.These amendments to IFRS 1 and IAS 27 are as follows:[2]

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[1] .For more detailed description of what reconciliation is and some of its samples please look at the appendix3

[2] . http://www.iasplus.com/standard/ifrs01.htm#separate

- Allow first-time adopters to use a 'deemed cost' of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities, and associates in the separate financial statements.
- Remove the definition of the cost method from IAS 27 and replace it with a requirement to present dividends as income in the separate financial statements of the investor.
- Require that, when a new parent is formed in reorganization, the new parent must measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganization.

The effective date of these amendments was annual periods beginning on or after 1 January 2009, with earlier application permitted.

Subsequently on 25th November 2008, IASB released restructured version of IFRS 1.The new version of IFRS 1, retains the substance of old version but within a changed structured. First, IASB agreed on effective date of 1 January 2009 for this restructured version but later on December 2008, the board agreed, subject to ballot, to put the effective date on 1 July 2009.Therefore, considering these changes from previous version which was applicable in financial year 2005, it could be inferred that the changes are immaterial and the findings of this research could be used as a practical guide for companies who intend to get listed in upcoming years bearing in mind the minor changes in IFRS 1 and related standards.

2.4.2. The requirements in IFRS 1 for the annual financial statements for the year ended December 2005:

2.4.2.1. Selection of accounting policy:

The entity should select its accounting policies based on IFRS in force at 31 December 2005. IFRS 1 requires that in preparing an "opening IFRS balance sheet," the "first-time adopter" shall use the same accounting policies as it has used throughout all periods presented in its first IFRS financial statements. Furthermore, the Standard stipulates that those accounting policies shall comply with each IFRS effective at the "reporting date" for its first IFRS financial statements, except under certain circumstances wherein the entity claims targeted exemptions(Explained later below) from retrospective application of IFRS or is prohibited by IFRS to apply IFRS retrospectively .In other words, a "first-time adopter" should consistently apply the same accounting policies throughout the periods presented in its first IFRS financial statements, and these accounting policies should be based on "latest version of the IFRS" effective at the reporting date. In case a new IFRS has been issued on the reporting date but it is not yet mandatory to apply it, but entities are encouraged to apply it before the effective date, then the "first-time adopter" is permitted but not required to apply it(Mirza Abbas, 2008, p366).

2.4.2.2. Determination of IFRS reporting periods:

The entities were obliged to prepare at least 2005 and 2004 financial statements and restate retrospectively the opening balance sheet (beginning of the first period for which full comparative financial statements are presented) by applying the IFRS in force at 31 December 2005.In fact, the restatement of 2004 financial statements or so-called reconciliation is the main source of information for monitoring the effect of transition to IFRS on equity of companies.

2.4.3. Adjustments required from previous GAAP to IFRS under IFRS 1:

2.4.3.1. Derecognition of some old assets and liabilities:

The entity should eliminate previous-GAAP assets and liabilities from the opening balance sheet if they do not qualify for recognition under IFRS. For example:

A. IAS 38 does not permit recognizing expenditure on any of the following as an intangible asset: research; startup, pre-operating, and pre-opening costs; training; advertising and promotion; and moving and relocation. If under previous GAAP these were qualified for recognition as assets, they are eliminated in the opening IFRS balance sheet.

B. If previous GAAP had allowed accrual of liabilities for "general reserves", restructurings, future operating losses, or major overhauls that do not meet the conditions for recognition as a provision under IAS 37; these are eliminated in the opening IFRS balance sheet.

C. If previous GAAP had allowed recognition of reimbursements or contingent assets that are not virtually certain; these are eliminated in the opening IFRS balance sheet.

2.4.3.2. Recognition of some new assets and liabilities:[3]

Conversely to previous note, the entity should recognize all assets and liabilities required to be recognized by IFRS even if they were never recognized under previous GAAP. For example:

A. IAS 39 requires recognition of all derivative financial assets and liabilities, including embedded derivatives. These were not recognized under many local GAAPs. This new regulation hugely affected related balance sheet line-items which could be seen in empirical findings of this research either in financial companies or non- financial companies.

B. IAS 19 requires an employer to recognize its liabilities under defined benefit plans. These are not just pension liabilities but also obligations for medical and life insurance, vacations,

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[3] http://www.iasplus.com/standard/ifrs01.htm#separate

termination benefits, and deferred compensation. In the case of "over-funded" plans, this would be a defined benefit asset.

C. IAS 37 requires recognition of provisions as liabilities. Examples could include obligations for onerous contracts, restructurings, decommissioning, site restoration, warranties, guarantees, and litigation.

D. Deferred tax assets and liabilities would be recognized in conformity with IAS 12.

2.4.3.3. Reclassification.

Reclassify previous-GAAP opening balance sheet items into the appropriate IFRS classification.

Examples:

A. IAS 10 does not permit classifying dividends declared or proposed after the balance sheet date as a liability at the balance sheet date. In the opening IFRS balance sheet these would be reclassified into retained earnings.
B. If previous GAAP had allowed treasury shares (an entity's own shares that it had purchased) to be reported as an asset, it would be reclassified as a component of equity under IFRS.

C. Items classified as identifiable intangible assets in a business combination accounted for under the previous GAAP may be required to be classified as goodwill under IAS 22 because they do not meet the definition of an intangible asset under IAS 38. The converse may also be true in some cases. These must be reclassified.

D. IAS 32 has principles for classifying items as financial liabilities or equity. Thus mandatorily redeemable preferred shares and puttable shares that may have been classified as equity under previous GAAP would be reclassified as liabilities in the opening IFRS balance sheet. · Note that IFRS 1 makes an exception from the "split-accounting" provisions of IAS 32. If the liability component of a compound financial instrument is no longer outstanding at the date of the opening IFRS balance sheet, the entity is not required to reclassify out of retained earnings and into other equity the original equity component of the compound instrument.

e. The reclassification principle would apply for the purpose of defining reportable segments under IAS 14.

f. The scope of consolidation might change depending on the consistency of the previous GAAP requirements with those in IAS 27. In some cases, IFRS will require consolidated financial statements where they were not required before.

2.4.3.4. Measurement.

The general measurement principle – there are several significant exceptions noted in next section – is to apply IFRS in measuring all recognized assets and liabilities. Therefore, if an entity adopts IFRS for the first time in its annual financial statements for the year ended 31 December 2005, in general it would use the measurement principles in IFRS in force at 31 December 2005.

2.4.4. Exceptions to the basic measurement principles in IFRS 1[4]:

2.4.4.1. Optional exceptions.

In a rather astounding change in approach to exemptions (i.e., from the one taken by the IASB in first edition of IFRS 1), IFRS 1 allows a first-time adopter to elect to use one or more targeted exemptions. In response to edition 1 of IFRS 1, many commentators disagreed with the IASB's proposed approach of allowing a first-time adopter either all or none of the exemptions. The IASB found respondents' comments to proposals in edition 1 cogent enough to change its mind on this issue. Thus it abandoned the proposed requirement in edition 1 that advocated an "all-or-nothing" approach to exemptions. Some believe that continuing with the approach in edition 1 might have opened a Pandora's Box for the IASB, leading to future revision(s) of IFRS 1, and also would have caused undue hardship to first time adopters since many of the exemptions are not interdependent (Mirza Abbas, 2008, p367).

There are some important exceptions to the general restatement and measurement principles set out above under IFRS 1, paragraph 13. The following exceptions are individually optional, not mandatory:

Business combinations that occurred before opening balance sheet date:

a. An entity may keep the original previous-GAAP accounting that is, not restate:
- previous mergers or goodwill written-off from reserves;
- the carrying amounts of assets and liabilities recognized at the date of acquisition or merger;

- How goodwill was initially determined (do not adjust the purchase price allocation on acquisition).

b. However, should it wish to do so, an entity can elect to restate all business combinations starting from a date it selects prior to the opening balance sheet date.

c. In all cases, the entity must make an initial IAS 36 impairment test of any remaining goodwill in the opening IFRS balance sheet, after reclassifying, as appropriate, previous GAAP intangibles to goodwill.

The reason behind this exemption is that, if retrospective application of business combination according to IAS 22(which superseded by IFRS 3), had to be made mandatory, it would have led to an entity making subjective estimates about conditions that were supposedly prevalent at the dates of business combinations in the past, as the entity may have not kept data from the dates of past business combinations.

Property, plant, and equipment, intangible assets, and investment property carried under the cost model:

a. These assets may be measured at their fair value at the opening IFRS balance sheet date (this option applies to intangible assets only if an active market exists). Fair value becomes the "deemed cost" going forward under the IFRS cost model. "Deemed cost" is a surrogate for an actual cost measurement.

b. If, before the date of its first IFRS balance sheet, the entity had revalued any of these assets under its previous GAAP either to fair value or to a price-index-adjusted cost, that previous GAAP revalued amount at the date of the revaluation can become the deemed cost of the asset under IFRS.

c. If, before the date of its first IFRS balance sheet, the entity had made a one-time revaluation of assets or liabilities to fair value because of a privatization or initial public offering, and the revalued amount became deemed cost under the previous GAAP, that amount (adjusted for any subsequent depreciation, amortization, and impairment) would continue to be deemed cost after the initial adoption of IFRS.

IAS 19 – Employee benefits: actuarial gains and losses:

An entity may elect to recognize all cumulative actuarial gains and losses for all defined benefit plans at the opening IFRS balance sheet date (that is, reset any corridor recognized under previous GAAP to zero), even if it elects to use the IAS 19 corridor approach for actuarial gains and losses that arise after first-time adoption of IFRS. If an entity does not

elect to apply this exemption, it must restate all defined benefit plans under IAS 19 since the inception of those plans (which may differ from the effective date of IAS 19).

IAS 21 – Accumulated translation reserves

An entity may elect to recognize all translation adjustments arising on the translation of the financial statements of foreign entities in accumulated profits or losses at the opening IFRS balance sheet date (that is, reset the translation reserve included in equity under previous GAAP to zero). If the entity elects this exemption, the gain or loss on subsequent disposal of the foreign entity will be adjusted only by those accumulated translation adjustments arising after the opening IFRS balance sheet date. If the entity does not elect to apply this exemption, it must restate the translation reserve for all foreign entities since they were acquired or created.

2.4.4.2. Mandatory exceptions.

There are also three important exceptions to the general restatement and measurement principles set out above that are mandatory, not optional. These are:

IAS 39 – Derecognition of financial instruments:

A first-time adopter is not permitted to recognize financial assets or financial liabilities that had been derecognized under its previous GAAP in a financial year beginning before 1 January 2001 (the effective date of IAS 39). This is consistent with the transition provision in IAS 39.172(a). However, if a special purpose entity (SPE) was used to affect derecognition of financial instruments and the SPE is controlled at the opening IFRS balance sheet date, the SPE must be consolidated.

IAS 39 – Hedge accounting:

The conditions in IAS 39.122-152 for a hedging relationship that qualifies for hedge accounting are applied as of the opening IFRS balance sheet date. The hedge accounting practices, if any, that were used in periods prior to the opening IFRS balance sheet may not be retrospectively changed. This is consistent with the transition provision in IAS 39.172(b). Some adjustments may be needed to take account of the existing hedging relationships under previous GAAP at the opening balance sheet date.

2.4.5. Information to be used in preparing IFRS estimates retrospectively

In preparing IFRS estimates retrospectively, the entity must use the inputs and assumptions that had been used to determine previous GAAP estimates in prior periods, provided that

those inputs and assumptions are consistent with IFRS. The entity is not permitted to use information that became available only after the previous GAAP estimates were made except to correct an error.

2.5. International accounting differences theories:

National environments in different countries have different characteristics and these characteristics cause standard setters and accounting bodies choose different alternative for recognition, measurement and presentation of assets, liabilities, equity, revenue and expenses. In each country, there is a mix of influences on financial reporting. These differences result from different environment, institutional and cultural differences in the individual countries (Alexander, 2007). There is a plethora of academic research about sources or factors of national differences in accounting systems and in most of them these sources of international differences are suggested:

1).Source of finance.2).The link between accounting and taxation.3).Existing legal system.4).Cultural differences between countries.

These different factors are used by researchers as cluster variables in order to classify different countries into separate more homogenous groups according to their characteristics (Alexander, 2007, p 25-30).Nobes(1983) has a classification that is mostly referred in academic journals. In his classification, he has classified Sweden as the Macro uniform, government driven ad tax dominated country. This classification was done in 1980th and from 1990th onward, clustered moved to each other and more countries are now clustered in one group.

As such, Blake (1997) classifies Sweden as a country torn between the two approaches, with a formal legal accounting system based on a binding tax-accounting link and a private-sector, standard-setting body seeking to break that link. This recent classification highlights some part of the analysis in next sections.

2.6. Swedish GAAP:

Swedish generally accepted accounting principles (SGAAP) is based on law (i.e., the Swedish Annual accounts Act, AAA), standards (i.e., RRs), interpretation (URAS) and guidelines. RRS are issued by a private sector standard setting body, the Redovisningsrådet. The AAA requires entities to prepare financial statements that give a fair presentation in accordance with SGAAP, and also specifies, for instance, formats, basic principles, disclosure requirements and audit requirements. The Annual Accounts Act is based on the EC Fourth, Seventh, and Eleventh Directives[5]. Credit institutions, brokers and dealers in securities, and insurance companies are covered by two special accounting acts. RRS and URAs are designed for use by listed companies and entities that are considered public interest companies

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[5] http://www.iasplus.com/country/sweden.htm

because of their size. An entity which seeks to comply with RRs must comply with all standards and interpretations, including disclosure requirements. Like IFRS, the RRS allows for departure from compliance with a standard if it would be misleading. In August 2006, two Swedish accountancy bodies merged. The two groups are the Swedish Organization of Certified Public Accountants (Foreningen for Auktoriserade Revisorer, or FAR) and the Swedish Organization of Auditors (Svenska Revisorsamfundet or SRS). The combined organization has about 4,000 members comprising authorized public accountants (auktoriserade revisorer), approved public accountants (godkända revisorer), and other highly qualified professionals in the accountancy sector in Sweden. The new body is known as FAR SAS.

2.6.1. RR's framework:

Since 1989, the Redovisningsrådet has tried to base its standards largely on IFRS within the constraints of the AAA .Moreover, IASB framework is the point of reference for preparers of financial statements in the absence of specific guidance in SGAAP.

2.6.2. Summary of Comparison between Swedish GAAP and IFRS

The most important differences between Swedish GAAP and IFRS are summarized as follows (Pannanen, 2008):

Figure 3: Summary of comparison between SGAAP and IFRS

Accounting issue	IFRS	Pre-2005 Swedish GAAP
Business combination	Goodwill amortization is no more longer allowed and instead regular impairment test has to be made. Identification of more intangible assets and liabilities.	Goodwill amortization over economic life(max 20 years)
Financial assets	Financial assets are primarily valued at fair value.	Lowest of cost and market. Fair value accounting only in some special cases.
Financial instrument	Financial instruments are valued at fair value. Stricter requirements for hedge accounting.	No complete coverage.
Stock-based compensation	Stock based compensation is accounted for in the income statement.	Not covered.
Investment properties	Fair value accounting is allowed.	Only historical costs are allowed.
Agriculture	Fair value accounting.	Lowest of cost and market.

2.7. Recent literature on the adoption of IFRS:

Recent literature on IFRS has focused on different issues. Hellman (2008), illustrated accounting conservatism under IFRS by examining three cases concerning loss carryforwads, development cost and construction contracts, related to three different standards (IAS 12, IAS 38 and IAS 11, respectively). Husmann and Schmidt (2008) examined the discount rate on IAS 36 by analyzing three alternative starting points for arriving at suitable discount rate. Beuren, Hein and Klann (2008), sought to analyze the impact of differences between the (IFRS) and Generally Accepted Accounting Principles in the United States (US GAAP) in the economic-financial indicators of English companies. Fearnley and Hines (2007), examined how IFRS has destabilized financial reporting for the UK non-listed companies.

Sodestrom and Sun (2007), provided background and guidance for researchers studying the change in accounting quality following widespread IFRS adoption in the EU. They argued that cross country differences in accounting quality are likely to remain following IFRS adoption because accounting quality is a function of the firm's overall institutional setting, including the legal and political system of the country in which the firm resides. Amen (2007), focused on accounting for unfunded defined benefit pension plans according to IAS 19 and compared the option to recognize any actuarial gain or loss immediately outside profit or loss in a separate statement within equity ('equity approach') with the 'corridor approach'. Wines, Dagwell and Windsor (2007), aimed to critically examine the change in accounting treatment for goodwill pursuant to IFRS by reference to Australian reporting regime. Nobes (2006), modeled the link between Tax and financial reporting in a longitudinal study of Norway up to adoption of IFRS. Carins (2006), examined the extent to which IFRS do, in fact, require the use of fair values for the measurement of assets and liabilities. However, none of the research mentioned above, monitored the first-time effects of transition to IFRS and they almost focused on (A) accounting quality, (B) compliance with IFRS by companies that had already implemented them and (C), the desirability of standardization, harmonization and convergence of regulation. The only available literature on effects of first-time adoption of IFRS is a paper by Aisbitt (2006) which presented the results of an analysis of the reconciliations of equity presented as part of the transition from UK Generally Accepted Accounting Principles (UK GAAP) to (IFRS) by the largest UK companies. This paper gave great insightful guidelines for conducting the same study in Sweden as the primary aim of this research. However, in the context of Sweden, the only available literature on adoption of IFRS prior to this research is studied by Paananen (2008), which focused on accounting quality in Sweden. Thought-provoking enough, the study found some indications of a decrease in financial reporting quality after the adoption of IFRS in Sweden. Hence, up to this point, there is no, or virtually no, particular literature documenting the effect of change on particular companies and/ or particular areas of financial statements after transition to IFRS in Sweden. *This paper, with its broad samples, relieved this lack as Nobes (2006) pointed a need to document the starting point of the change to IFRS.*

3. Data and methods:

In this chapter, some methodological choices that were faced during research are presented. Additionally, an explanation of the scientific method that was used is provided. Subsequently, it is demonstrated how the data was collected .Sampling related issues are followed and analyzed. Furthermore, practical problems encountered during research are clarified and finally chapter reaches its final part by discussion about reliability and validity of research.

3.1. Type of accounting research method:

As a general orientation, underlying assumptions about the subject being researched are discussed here, which shape the methodological approach in this paper. This leads us to taxonomy of accounting research and choosing one research method from three prevalent accounting research methods: mainstream, interpretative, and critical. Ryan, Scapens and Theobald (2002) point out that the selection of the most appropriate research methodology is dependent on the nature of the phenomenon being researched. The assumptions which the researcher holds regarding the nature of the phenomenon's reality (ontology), will affect the way in which knowledge can be gained about that phenomenon (epistemology), and this in turn affects the process through which research can be conducted (methodology). Thus, in order to choose a proper methodological approach for this research, first, shortly, it is worth looking at different ontological assumption and chooses the one which is appropriate for this research. There are six ontological assumptions according to Morgan and Smirich (1980):

Figure 4: Six ontological assumptions

	Six ontological assumptions(Morgan and Smircich, 1980)
1	*Reality as a concrete structure(naive realism)*
2	*Reality as a concrete process(transcendental realism)*
3	*Reality as a contextual field of information(contextual relativism)*
4	*Reality as a symbolic discourse(transcended idealism[kant])*
5	*Reality as social construction*
6	*Reality as a projection of human imagination(idealism[Bekerley])*

These six assumptions could be regarded as six ways of viewing the world starting with (1) reality as concrete structure being the most *objective* and (6) reality as a projection of human imagination being the most *subjective* .Here, the focus is being objective or subjective. The mainstream accounting researcher who uses scientific method feel most comfortable with the objective end, but as reality becomes more subjective the researcher is likely to use naturalistic research methods.

In this paper, variables are gathered from elements of financial statements of listed companies in Stockholm stock exchange. These elements are mostly line items of their balance sheets. Thus, the variables are not changed or interpreted. The numerical changes that are result of transition to IFRS are extracted from reconciliations made by these companies. For instance, the changes to equity amount after adoption of IFRS. Therefore, if the intention is to choose ontological assumption, it should be looked at the objective end of this continuum (six ontological assumptions).The belief is that the ontological assumption is similar to number one or number two with a more tilt toward number two which is *reality as concrete process.* The author believes that reality in this research is assumed to subsist within the relationships and general laws which describe how things change. However, it should be pointed out that the distinction between these ontological assumptions are not that concrete that enables the author to draw a definite line between them, but, what here is of paramount importance is choosing the objective end of this continuum.

Up to this point, the author recognized the ontological assumption which provides the basis for selection of one type of different categories of accounting research (mainstream, interpretative and critical).In other words, the ontological assumption the author chose, gave rise to a type of accounting research. As mentioned out before, the nature of the phenomenon's reality (ontology), will affect the way in which knowledge can be gained about that phenomenon (epistemology), and this in turn , affects the process through which research can be conducted (methodology),(Ryan, Scapens and Theobald, 2002).At this point, the epistemological dimension should be selected which range from interpretation when the knowledge of the world is essentially of a personal nature, to observation when there is a concrete external world. Considering the selected ontological assumption, the best epistemological assumption for this research is *observation*. The next step is to choose the research method (methodology). When reality is concrete and objective, and human behavior is deterministic, knowledge is gained through observation and, then, scientific method will be appropriate (mainstream accounting research).Mainstream accounting research is primarily concerned with the functioning of accounting. Arguably, mainstream accounting research is the most conducive method for this research. To point out assumptions about mainstream accounting research, it is worth quoting here Chua's(1986) dominant assumptions of mainstream accounting research:

Figure 5: Mainstream accounting research

Mainstream accounting research (Chua,1986)

A. *Beliefs about knowledge*:
Theory and observation are independent of each other, and quantitative methods of data collection are favored to provide a basis for generalizations. (In fact it is very noticeable in our research paper that our method of data collection is quantitative and the source is numbers in f/S of listed companies.

B. *Beliefs about physical and social reality*:
Empirical reality is objective and external to the subject (and the researcher).Human actors are essentially passive objects, who rationally pursue their assumed goals. Society and organizations are basically stable, and dysfunctional behavior can be managed through the design of control systems.

C. *Relationship between accounting theory and practice*:
Accounting is concerned with means, not ends-It is value neutral, and existing institutional structures are taken for granted.

3.2. Research strategy:

Holme& Solvang(1997) state that there is no absolute difference between qualitative and quantitative methods since all methods are tools, which to different extent use a set of methodological principles: analytical principles and/ or systems and actor principles. Quantitative methods are more structured and rely on statistical methods. Researchers can transform data into numbers, from which they can glean statistical analyses. Then, if there is external validity, they can generalize their findings. External validity describes whether the results of study can be generalized beyond the research specific context. Therefore, sampling issue in quantitative research reigns supreme in order to generalize findings. Qualitative methods, on the other hand, offer higher flexibility and rely more on objective methods. Through analysis of unstructured information, qualitative research probe the how of its topic not the why of it. Analyzing of unstructured question is messy and time consuming in qualitative research. According to these definitions, this research relied mainly on quantitative method. However, once again, the author does not claim that the research strategy of this research is 100% quantitative and in some part of the research process, the author is obliged to use qualitative approach as well. According to Holme &Solvang (1997), this combination could be beneficial in order to recognize essential coherence. Bryman and Bell (2007, p 29) asserts in his book that while it is useful to contrast the two research strategies, it is necessary to be careful about hammering a wedge between them too deeply.

3.3. Research design:

The effects of first-time adoption of IFRS on financial statements of listed companies in Stockholm stock exchange has been rarely studied by researchers. It is worth reiterating that, Mari Paananen(2008) in her paper, The IFRS Adoption's Effect on Accounting Quality in Sweden, monitored the changes in financial statements of companies according to her definitions of accounting quality, but her research did not investigate the effect of transition of IFRS on specific financial statement items. Therefore, the research wants to study a phenomenon new of which, little is known. The best research design for this kind of research is exploratory design. However, it should be noted that the research design has some characteristics of descriptive research design because the aim is to investigate how things are (after adoption of IFRS) and how things had been in financial statements of listed companies. Therefore, the research design is a mixture of descriptive and exploratory research design. Between two types of prevalent descriptive research design (cross-sectional and longitudinal design), this research pertains to cross-sectional category. A cross-sectional design entails the collection of data on more than one case (usually quite a lot more than one) and at a single point in time in order to collect a body of quantitative or quantifiable data in connection with two or more variables, which are then examined to detect pattern of association(Bryman and Bell, 2007, p55).

3.4. Collection of data:

The primary source of information is financial statements of medium and large capital Swedish listed companies. The author collected the information from all Large and medium-sized listed companies financial statements registered in OMX NORDIC EXCHANGE Stockholm. The research concerns the companies that are included in this market at the self-chosen date of 27th April 2009 and were listed in the financial year 2005. Financial companies are considered separately due to specialized nature of their business and the way their financial statements were prepared. The target financial statements of sample companies for answering research questions, were for the fiscal year 2005 which were published in 2006 and financial statements for the fiscal year 2004 which were published in the year 2005.The investigation was based on the reconciliation of balance sheets published under Swedish GAAPS to the balance sheet restated under IFRS for the financial year 2004. The preferences for selection of financial statements of these companies were given to audited financial statements. The audited financial statements were gathered from investor relation section of websites of companies or with direct correspondence with companies where annual reports were not available in their Websites .In annual reports 2005, the main source of information was reconciliation of balance sheet according to Swedish GAAP on December 2004 to balance sheet according to IFRS on the grounds that -according to IFRS 1-

companies were supposed to report comparative figures for one year before transition to IFRS which stands for financial year 2004. The main source of information in annual report 2004 was notes about transition to IFRS in which companies predicted that which line items of their balance sheet would be affected by which standards. All amounts in the research are in MSEK unless otherwise said. There were some companies that reported their financial reports in Euro. In order to have same currency for all companies, the exchange rate from Euro to SEK at the balance sheet dates extracted and amounts converted. The exchange rates were gathered from a reliable source of information in the most referred website by the name of Oanda.[6]

The extractions of information from reconciliations were not always straightforward and easy. In most cases, companies gave detailed and comprehensive information by providing reconciliations by line item and related standard. In other cases, companies failed to give comprehensive reconciliation either by not providing line items or by not providing respective standards. This put a great burden on the shoulders of the author considering the very short time-span available for research and the very large sample chosen by author to validate the findings of research. To solve the problem of lack of enough information in reconciliations- in some cases- data was deduced from information available in annual reports. Moreover, the split between line items and standards sought in the data sheet of the research made checking of accuracy of data viable (by comparing the changes in overall equity due to transition with changes in line items and with related standards).For more information about reconciliations and some explaining samples, please see appendix 3(these reconciliations shows that how data are gathered).

Turning now to the issue of time and energy for data collection and answering the research questions, among four questions presented in this research, same amount of time and energy were not devoted. In Q1 and Q3, although about 270 annual reports were investigated, the data were more clear-cut and easily attainable whereas, in Q 2 and Q4, due to highly technical nature of data and sensitivity of them, enormous amount of time and energy expensed.

3.5. Sampling issue:

As it is remarkable, the *sampling approach* is non- probability sampling. The term non-probability sampling is essentially an umbrella term to capture all forms of sampling which are not conducted according to the canons of probability sampling. Sometimes non-probability sampling is claimed by some practitioners to be almost as good as a probability sampling. Among three types of non-probability sampling, which are the convenience sample; the snowball sample and the quota sample, the author chose quota sampling. In quota sampling, the population is first segmented into mutually exclusive sub-groups, just as

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[6] http://www.oanda.com/convert/classic

in stratified sampling. Then judgment is used to select the subjects or units from each segment based on a specified proportion (Dodge, 2003). In case of this research, companies are divided into three subs -group of Large, medium and small capital companies and researcher chose the whole population under sub-groups of large and medium. The author believes that quota sampling fulfills the purpose of research. In addition, the author thinks that he won't have problem regarding external validity of the research, although non-probability sampling is implemented. It must be remembered that External validity describes whether the results of study can be generalized beyond the research specific context. Once again, sampling issue in quantitative research lend support to the external validity concept. In this paper, the author have chosen all sampling population of large and medium-sized companies .To give a richer picture, sampling frame is near to sample size and the generalization of the findings for large and medium sized companies, perhaps in other stock markets ,that had used SGAAP before transition to IFRS, is rational (although perhaps, it is also generalisable for small capital companies as well).

The sampling frame of the research is 135 companies. Twenty eight companies deleted in final sample, due to different reasons, such as not using IFRS for the current fiscal year or not using Swedish GAAP before transition to IFRS or not being listed in the fiscal year 2005[7]. This means that the final sample is almost 80% of sampling frame and this is a high percentage of inclusion in the final sample.

Finally to recap this part, there are several issues at stake here, but two stands out. Firstly, the author has included all companies under medium or large capital category that had used SGAAP before transition to IFRS in Stockholm stock market. Then, what the author meant by generalisability is that the result of this study could be generalisable to all companies that are probably listed in other stock markets(e.g. Nordic Helsinki) and had used SGGAP before transition to IFRS. It is worth reiterating that; author does not rule out that findings could be generalized for small capital companies as well, but it needs more speculation.

Secondly, probably, the findings of this research would be also applicable for companies that intend to get listed in upcoming years, bearing in mind the changes in new editions of different IFRS and tracing them to the IFRSs which were applicable at the time of this research.

3.6. Practical constraints of doing research:

Naturally, all empirical research that is conducted to answer research questions has to face some constraints (Taylor and Bogdan, 1964). This research was no exception to this rule. Practical constraints of this research were mainly time and excessive energy needed to

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[7] Please see appendix 1, for complete list of companies included in the sampling frame and see appendix 2 for the reason behind omission of 28 companies from final sample.

answer the research questions. The similar study with much smaller sample had been done in England with much wider time span. In order to increase the validity of research, specifically external validity, the author chose a huge sample of 135 companies. Then, two annual reports for each company for the financial year 2004 and 2005 gathered to answer the research questions. Therefore, about 270 annual reports, gathered either from websites of companies or from direct correspondence with the companies. The time span of the research was about 16 weeks which is eventually inconsiderable for this huge research project. Sometimes, the researcher spent more than 15 hours per day for data collection from annual reports.

The other practical problems that encountered by researcher was the highly technical nature of data needed. In some cases, the companies were so unclear about the effects of transition to IFRS and the researcher was supposed to read almost the majority of notes accompanied by financial statements and make the best deduction. However, such cases were so limited and sensitivity analysis was done afterwards to ascertain that, in cases where there are two possible choices, the overall results wouldn't be changed.

3.7. Reliability and Validity of research:

Reliability deals with the question of whether the results of study are repeatable. In other words, the term is commonly used in relation to the question of whether or not the measures that are devised for concepts in the research field are consistent. Reliability is particularly at issue in connection with quantitative research (Bryman and Bell, 2007, chapter 6). In quantitative research, researcher should bear in mind the question whether a measure is stable or not. If the result of a measure is not consistent, it should cast doubt on its reliability. In this study, researcher redid the tests incorporated in research questions for three times and they resulted in same kind of answers. Other researchers, having some level of IFRS competency, can repeat the empirical findings of this research.

Validity is concerned with the integrity of the conclusions that are generated from a piece of research. Main types of validity that are typically distinguished are as follows (Bryman and Bell, 2007, chapter 6):

- *Measurement validity*: measurement validity is also referred to as construct validity. Essentially, it is to do with the question of whether or not a measure that is devised of a concept really does reflect the concept that is supposed to be denoting. In this paper, the changes in balance sheet line items post-implementation of IFRS do really reflect the effects of transition to IFRS.
- *Internal validity*: Internal validity is concerned with the question of whether a conclusion that incorporates a causal relation relationship between two or more variables holds water. Thus, internal validity raises the question: how confident can

we be that the independent variable is really at least in part responsible for the variation that has been identified in the dependent variable. In this study, the independent variable which is "transition to IFRS" has really prompted the independent variable "adjustment in balance sheet line items".

- *External validity*: The issue is concerned with the question of whether the results of a study can be generalized beyond the specific research context. The external validity is one of the main reasons why quantitative researchers are so keen to generate representative samples.

This validity element had great impact on our choice of samples. As reiterated before, the researcher selected all medium and large sized capital companies in Stockholm stock market to increase the generalizability of research for all medium and large capital companies that transitioned from SGAAP to IFRS(i.e. probably in other stock markets).

Regarding the issue of reliability of data in financial statement of companies across samples in this research, author gave the priority to audited financial statements of companies and in most cases they were reachable. In few cases that audited financial statements were not available, other resources like press releases were used.

4. Empirical findings:

This chapter discuses the empirical evidence that are collected form mostly reconciliations from SGAAP to IFRS in annual reports of companies across our sample. Statistical tests are supplemented to give richer pictures of findings.

The empirical findings are presented according to type and order of questions in section 1.2:

Q 1 effect on equity

Table 1: Effect of transition from Swedish GAAP to IFRS on equity

Industry	Equity increased under IFRS		Equity decreased under IFRS		No changes under IFRS		Total	
	No	%	No	%	NO	%	No	%
Industrial	32	88.9	3	8.33	1	2.77	36	100
Health care	5	62.50	2	25.00	1	12.50	8	100
Consumer staples	2	66.67	1	33.33	0	0.00	3	100
Materials	6	100.00	0	0.00	0	0.00	6	100
Financial	24	88.88	3	11.12	0	0.00	27	100
Consumer discretionary	11	73.33	2	13.33	2	13.33	15	100
Telecommunication	1	100.00	0	0.00	0	0.00	1	100
Information technology	6	66.7	3	33.3	0	0.00	9	100
Energy	0	0.00	2	100.00	0	0.00	2	100
Total	**87**		**16**		**4**		**107**	

This table shows the effect of transition from SGAAP to IFRS. 107companies across the final sample of this research are divided according to their industry and then, companies within each industry are divided into the ones that monitored increase in their equity, the ones that witnessed decrease in their equity and the ones that witnessed no changes in their equity. Simple percentage is calculated to show the frequencies of companies in each category. More descriptive analysis is provided in respective analysis section.

Q2 effect on individual line items:

The tables in following two pages show the empirical findings of the second question about balance sheet line-items with largest adjustment following transition to IFRS relative to Swedish GAAP and their standard deviation. The findings regarding non-financial companies are shown first and the findings regarding financial companies are followed afterwards. The tables in the left side of the pages 30 and 31 show the average adjustment in each line item that had been mostly affected and ranked. Then these averages are calculated as a percentage of average equity according to SGAAP in these 107 companies. The tables in the right side of pages show the standard deviations of these adjustments from largest to smallest. The first columns, in both of tables in each page, are balance sheet line items that have been mostly affected as a result of transition to IFRS. All amounts, in second columns, are in MSEK and in and the third column amounts are shown as a percentage of average equity of companies according to Swedish GAAP. Averages give clearer picture of comparison of data between companies.

The crucial point regarding interpretation of data in tables is that items are expressed in terms of equity and increase in credit balance is shown as positive figure and an increase in debit balance is shown as a negative figure. In other words, positive figures indicate that adjustment in balance sheet line items has increased equity and negative figures indicate that the adjustment has decreased the equity- considering that they are not reclassifications (some reclassification examples are mentioned in theoretical framework section)-. It should be noted that first 15 items which had the utmost effect are reported here .However, the total number of balance sheet line items that had been affected in these 107 companies were about 69 line items both in financial and non-financial companies. The interpretation of data   will be followed in data analysis section.

Table 2: Balance sheet line items with largest adjustment following transfer to IFRS relative to Swedish GAAP, (non-financial companies).

Table 3: Standard deviation of change in value of line item expressed as percentage of Swedish GAAP equity,(non-financial companies).

Non-financial companies

Table 2

Balance sheet lineitems	Average Adjustment	Average adjustment as percentage of Swedish GAAP equity(%)
Short term investment	562.9	8.00
Cash and cash equivalents	-505.5	-7.18
Biological assets	255.6	3.63
goodwill and intangible asset	181.4	2.58
Interest bearing loans and borrowings(current and non-current)	-119.8	-1.70
Trade and other receivable(current)	111.8	1.59
Tangible fixed assets	-85.3	-1.21
Financial instruments-derivative(current and long-term)	59	0.84
Deferred tax liablity	-58.4	-0.83
cash and bank balances	-50.5	-0.72
Minority interest	44.8	0.64
Trade and other receivable(non-current)	30.7	0.44
Other liability(current and non-current)	-30.1	-0.43
Pension provision	-24.9	-0.35
Investment in equities	24.3	0.35

Table 3

Balance sheet line items	Standard deviation of change in value of line item	Standard deviation of change in value of line item as a percentage of Swedish GAAP equity(%)
Cash and cash equivalents	5252.3	74.61
Short term investment	5229.7	74.29
Biological assets	1983.5	28.18
Tangible fixed assets	934.2	13.27
goodwill and intangible asset	547	7.77
Interest bearing loans and borrowings(current and non-current)	522.3	7.42
Trade and other receivable(current)	459.2	6.52
cash and bank balances	324.5	4.61
Financial instruments-derivative(current and long-term)	314.7	4.47
Pension provision	282.5	4.01
Other Financial asset(current and non-current)	278.9	3.96
Deferred tax liablity	277.6	3.94
Trade and other receivable(non-current)	240.2	3.41
Investment in equities	221.5	3.15
Long-term liability(non interest bearing)	203.9	2.90

financial companies.

Table 4: Balance sheet line items with largest adjustment following transfer to IFRS relative to Swedish GAAP (financial companies).

Table 5: standard deviation of change in value of line items expressed as percentage of Swedish GAAP equity(financial companies).

Table 4

Balance sheet items	Average adjustment	Average adjustment as percentage of Swedish GAAP equity (%).
Other Financial asset(current and non-current)	19938.0	77.2
Other liability(current and non-current)	14066.5	54.5
Liabilities to policy holders	-13162.1	-51.0
Other assets(current and non-current)	-11148.9	-43.2
Assets in insurance operations	-9604.2	-37.2
Liabilities in insurance operations	9243.0	35.8
Interest bearing securities and shares	8287.4	32.1
Financial liability short-term	-6560.6	-25.4
Bonds and other interest-bearing securities(asset)	-5272.5	-20.4
Eligible treasury bills	-4350.5	-16.8
Investment in equities	3650.8	14.1
Assets where the customer bears the value change risk	3048.7	11.8
Liabilities where the customer bears the value Change risk	-2805.2	-10.9
Finacial instrument - derivative(liability)	-1902.9	-7.4
Loans and receivables to credit institutions	1482.8	5.7

Table 5

Balance sheet items	Standard deviation	standard deviation of Change in value of line item expressed as percentage of Swedish GAAP equity(%).
Other Financial asset(current and non-current)	103320.0	400.1
Liabilities to policy holders	48357.6	187.2
Interest bearing securities and shares	42790.8	165.7
Other liability(current and non-current)	42453.7	164.4
Other assets(current and non-current)	37964.7	147.0
Financial liability short-term	34090.0	132.0
Assets in insurance operations	32304.9	125.1
Liabilities in insurance operations	30898.6	119.6
Bonds and other interest-bearing securities(asset)	27396.8	106.1
Eligible treasury bills	22606.0	87.5
Investment in equities	13793.1	53.4
Assets where the customer bears the value change risk	11206.7	43.4
Liabilities where the customer bears the value Change risk	10159.0	39.3
Finacial instrument - derivative(liability)	9067.3	35.1
Treasury bills and other eligible bills	7273.7	28.2

Q 3 comparison of line items affected with previous narrative disclosures:

Table 6: Frequency distribution of accounting issues of greatest concern in transition to IFRS disclosed in the financial report in the year prior to transition to IFRS(2004).

Table6

Accounting issue	Non-financial	Financial	Total	%
Financial instrument	56	23	79	77
Goodwill	65	13	78	76
Minority interest	37	6	43	42
Business acquisitions	35	6	41	40
Hedge accounting	27	8	35	34
deferred taxation	21	9	30	29
Share base payment	22	2	24	23
Impairment	18	5	23	22
Tangible non-current assets	15	5	20	19
Pension benfits	14	2	16	16
Intangible assets	13	2	15	15
Investment property	2	11	13	13
Leasing	10	1	11	11
Foreign exchange rate diffrences	10	0	10	10
Cash and cash equivalents	7	1	8	8
Investment in associates	1	5	6	6
Agriculture	3	2	5	5
insurance contracrs	1	4	5	5
Revenue recgnition	3	1	4	4
Non-current asset held for sale	4	0	4	4
Borrowing cost	3	0	3	3
Construction contracts	3	0	3	3
Investment in joint ventures	2	0	2	2
provisions	1	1	2	2
Dicontinued operation	1	0	1	1
Number of companies with disclosure about transition	76	27	103	100

Q 3 comparison of line items affected with previous narrative disclosures:

Non-financial companies.

Q 4 Effect of individual standards.

Table 7: IFRS adjustment relative to Swedish GAAP (non-financial companies).

Table 8: Adjustment with largest variance following transfer to IFRS relative to Swedish GAAP (non-financial companies).

Table 7

Accounting standards	Average adjustment	Average adjustment as percentage of Swedish GAAP equity (%)
IFRS 3	173.7	2.5
IAS41	149.5	2.1
IAS 39	98.5	1.4
IAS 12	-61.0	-0.9
IAS 19	-55.9	-0.8
IAS 16	9.8	0.1
IAS 21	-7.8	-0.1
IAS 11	-7.4	-0.1
IAS 18	-6.8	-0.1
IAS 40	6.4	0.1
IAS 38	5.7	0.1
IAS 36	-3.7	-0.1
IAS 17	-2.8	0.0
Ias 23	1.5	0.0
IFRS 2	1.5	0.0

Table 8

Accounting standards	standard deviation	Standard deviation as percentage of Swedish GAAP equity (%)
IAS41	1063.8	15.11
IFRS 3	535.8	7.61
IAS 19	482.6	6.86
IAS 39	361.4	5.13
IAS 12	304.0	4.32
IAS 16	67.5	0.96
IAS 21	66.7	0.95
IAS 18	60.3	0.86
IAS 40	53.3	0.76
IAS 11	34.7	0.49
IAS 36	28.2	0.40
IAS 38	27.9	0.40
IAS 17	25.1	0.36
Ias 27	22.7	0.32
Ias 23	16.5	0.23

Financial companies.

Table 9: IFRS adjustment relative to Swedish GAAP (financial companies).

Table 10: Adjustment with largest variance following transfer to IFRS relative to Swedish GAAP (financial companies).

Table 9

Accounting standards	Average adjustment	Average adjustment as percentage of Swedish GAAP equity (%)
IAS 39	3932.1	15.22
IAS 28	-1358.2	-5.26
IAS 40	1037.9	4.02
IFRS 3	443.7	1.72
IAS 12	-405.1	-1.57
IFRS 4	-126.8	-0.49
IAS41	90.0	0.35
IAS 16	31.4	0.12
IAS 36	-9.7	-0.04
IFRS 2	2.0	0.01
Ias 1	-0.2	0.00
IAS 18	-0.1	0.00

Table 10

Accounting standards	Standard deviation	Standard deviation of adjustment expressed as percentage of Swedish GAAP equity (%)
IAS 39	13726.6	53.1
IAS 28	6051.7	23.4
IAS 40	2204.4	8.5
IFRS 3	1684.9	6.5
IAS 12	985.8	3.8
IFRS 4	658.8	2.6
IAS41	465.9	1.8
IAS 16	165.6	0.6
IAS 36	50.4	0.2
IFRS 2	10.6	0.0
Ias 1	0.8	0.0
IAS 18	0.6	0.0
IAS 17	0.2	0.0

5. Analysis:

This chapter includes an analysis of the empirical data, presented in chapter 3. The basis for analysis is the research questions that are stated in chapter one in relation with theoretical framework in chapter two. A statistical test in supplemented to enrich the analysis and give insight for final conclusion.

Q1 effect on equity

The overall effect on companies' equity, except for the energy section, seems to have a positive trend which suggests that the effect is attributable to national differences in accounting policies. Out of 107 companies included in the final sample, only 16 companies had negative effects on their equity. The energy section has two available samples and generalization of results in this section needs more speculation and samples. The total number of observations in energy section include two Energy companies and in one of them implementation of IFRS 6(exploration for and evaluation of mineral resources) has decreased the equity and in the other one, impairments of assets and implementation of IAS 39 have mainly decreased the equity. A possible explanation could be that companies in energy section have large amount of assets in their balance sheet and new regulations in IAS 36 and IFRS 6 require an impairment test when there is an indication that the carrying amount of exploration and evaluation assets exceeds recoverable amount which then, as a result, can prompt negative impact on equity figures of these companies. As a general orientation, a positive trend in equity of all remaining industries is considerable. Only four companies' equity has been the same after transition to IFRS.

To give a richer picture of difference between equity under two conventions, equity under SGAAP and equity under IFRS are compared with the special statistical test called Paired sample t-tests. The purpose of a paired sample t-test is to determine if there is a significant difference between the means of two groups that are linked or paired in some way(Seiler,2004) . Null and alternative hypotheses can be tested as follows:

H0: Equity before IFRS (SGAAP) = Equity after IFRS.

H1: Equity before IFRS (SGAAP) ǂEquity after IFRS

If null hypothesis is accepted it means that there is no significant difference between equity under SGAAP and equity under IFRS.

If H1 (alternative hypothesis) is accepted it means that there is significant difference between SGAAP and IFRS. One pair including equity before IFRS and equity after IFRS was fed into SPSS and the result is as follows:

Table 11: Paired sample t-test of equity before IFRS and after IFRS performed in SPSS.

		Paired Samples Test							
		Paired Differences							
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
					Lower	Upper			
Pair 1	Equity before IFRS - Equity after IFRS	-1181,68224	4285,73565	414,317 70	-2003,10739	-360,25710	-2,852	106	,005

Statistically speaking, the decision rule is given by: If p ≤ α, then reject H$_0$. The p value is shown in sig (2-tailed) column. In this hypothesis p= 0.005<.05, so H0 is rejected. *In other words, equity under Swedish GAAP is significantly different from equity under IFRS.* This is one of the most crucial and compelling findings of this research found so far, which also reinforces the findings that equity under IFRS is significantly higher than equity under SGAAP. This finding can have huge pay-offs for future researches on similar research topics.

Q2 effect on individual line items

Table 2&4 exhibited the balance sheet largest adjustment relative to Swedish GAAP. Financial companies have special types of assets that are disclosed differently from non-financial companies. Bearing in mind this issue, the analysis of the effect on individual line items carried out separately for financial and non-financial companies. The figures in the tables 2&4 are based on simple average calculated of the adjustment made to each balance sheet line item across the companies in the sample to allow for easy comparison. Then these adjustments were ranked to identify the adjustment having the greatest impact on equity. The first 15 items that had the utmost effect are bought up in the tables. It should be borne in mind that these amounts are based on averages so they will not hold for all companies. Having considered the latter, standard deviations of each line item adjustments were calculated. The findings regarding standard deviations are exhibited in table 3&5(the tables in the right side of pages 30 and 31). If the standard deviations of adjustments are so high, it lends support to the fact that each company's adjustment should be considered separately for monitoring the transition effects in an individual company.

Moreover, it should be noted that the main aim of this vast research is not finding the reasons of change in balance sheet line items post-transition to IFRS or comparing the Swedish GAAP with IFRS ,whereas the bottom line in this research is identifying the line-items that had been mostly affected per se. In more compelling words, this research does not seek to answer why these changes happened but it looks to answer what happened after transition to IFRS?! Therefore, the explanations regarding the reason of changes are

brought here very concise and narrowed down to some of the balance sheet line items in order to just give some insights to readers what kind of differences made this adjustments to accounts. The analyses of balance sheet line items with largest adjustments affected by conversion to IFRS are as follows:

Interestingly enough, the changes in balance sheet line items are of two different categories. In non-financial companies (data in table 2), the study picked up changes that relates to *reclassification* including first two items, cash and cash equivalents and short-term investment. According to IAS 7 "Cash Flow", companies should define cash and cash equivalents to include only short-term highly liquid investments with remaining maturity at acquisition date of three months or less (IAS 7, Paragraph 7) whereas, under Swedish accounting standards a broader interpretation was earlier made, where also readily marketable securities designated for liquidity management purposes only and with a low risk for value changes and with a maturity exceeding three months were included. This difference made lots of companies across the research sample to move amounts and reclassify them between short –term investment and cash and cash equivalents. Returning to theoretical framework section 2.4.3.3, the nature of these reclassifications is more pinpointed. The other type of adjustments associated with changes in *measurement* basis such as usage of fair value in revaluation models in biological assets according to IFRS 41 whereas, in SGAAP biological assets were recognized as lower of cost and market.(see theoretical framework section 2.6.2 for more pinpointed differences between SGAAP and IFRS).

Goodwill and intangible assets are mainly adjusted because of new regulations in IFRS3 in which goodwill should not be amortized but is tested for impairment annually . In Swedish GAAP, goodwill had been amortized over economic life of maximum 20 years. Compared to Swedish GAAP, IFRS 3 also requires a more detailed purchase price allocation in which fair values to a larger extent are assigned to acquired intangible assets such as customer relations, brands and patents.

Tangible fixed assets have been mostly affected due to component depreciation requirement in IAS 16 .Unlike IFRS, component accounting is encouraged but not required except for certain major inspection and overhaul costs.(KPMG Bohlins AB,2005)

Minority interest has been classified separately from parent shareholder's equity and liabilities according to Swedish GAAP whereas; according to IAS 27, it should be reported as a component of equity. This adjustment is completely reclassification and no measurement adjustment is incorporated.

Companies across the sample mainly applied the Swedish Financial accounting standards Council's standard RR 29 , "employee benefits" .The only difference between Swedish GAAP and IFRS related to the date of transition. In accordance with the transition rules of RR 29,

actuarial gains and losses aroused prior to January 1, 2003, were set to zero and charged to equity as of the transition date. In accordance with the IFRS transition rules, actuarial gains and losses aroused prior to January 1, 2004, should have been set to zero and charged to equity as of the transition date. The majority of transition effects, attributable to the accounting convention change, therefore, pertain to recognizing actuarial gains and losses that have arouse between January 1, 2003 and January 1, 2004.Therefore, changes in pension provision account across the sample is mostly related to difference in time span of change in new Swedish accounting rule RR29 and IAS 19.This finding is in conformity with theoretical framework section 2.4.4.1(IAS19).

The other adjustments flagged up in first 15 items in non-financial companies are almost related to new regulations in IAS 39 regarding usage of fair value for some financial instrument.

One of the extremely interesting points in research findings is associated with the standard deviation test of line item adjustments. The results of this test are summarized in tables 3&5. This demonstrates that for almost majority of adjustment with the highest level of change reported in tables 2&4, there were also the greatest level of variability reported in tables 3&5. As mentioned out before, this has salient remarks for interpretation of adjustments and it demonstrate the risks of drawing conclusions from overall averages. In more compelling words, it is academically wise when standard deviation is high, conclusions should not be made from averages and each company's financial position should be considered individually. For instance, based on the findings, it is not sound to say that in non-financial companies as a result of transition to IFRS short term investment has increased on average 562 MSEK in every company. The standard deviation of short-term investment is 5253 MSEK across   samples, therefore, if individual company's information about this adjustment is needed , the best conducive way is to look at financial position of that individual company.

In the case of financial companies, the adjustments of line items are almost different from adjustments in non-financial companies. As it is discernible, financial assets and liabilities have played substantial role among the post-transition changes. New regulations in IAS 39 and IFRS 7 caused changes in the format of balance sheet line items and reclassifications of line items in the balance sheets of financial companies. The first line item that has been mostly affected is other financial asset which incorporates all together the line items: Assets held to maturity, Assets measured at fair value and Assets available for sale. According to IAS 39, financial assets are classified as follows: 1.Loans and other receivables.2. Assets held to maturity.3.Assets measured at fair value .4.Assets available for sale.
The measurement of categories 1 and 2 corresponds with the measurement policies applied for loans classified as non-current assets and financial assets held in the long term or held to maturity before transition to IFRS in SGAAP. These assets are carried at amortized cost in

IFRS. Assets measured at fair value mainly comprise assets held for trading purposes in SGAAP. The measurement policies and definitions correspond closely to the SGAAP measurement policies for items in the trading assets of financial companies. This new classification according to IAS 39 is probably the main reason for reclassifying the figures among these aforementioned line items. Typically, there has been many occurrence of classification between balance sheet line items of: treasury bills and other eligible bills, loan and receivable to credit institutions and loans and receivable to the public and policy holders. Following the implementation of IAS 39, all derivatives also measured at fair value which had quite big impact on adjustment made (measurement effect) in financial companies.

SGAAP did not have comprehensive standard on accounting for financial instrument. However, SGAAP generally used different classification and measurement guidance, apart from those mentioned in previous paragraph. For instance, investments held for long- term, provided they did not have a limited useful life, were treated as fixed assets. Otherwise, investments were treated as current assets (KPMG Bohlins, 2005). Unlike IFRS, financial assets classified as short-term investment should be measured at the lower of amortized cost or net realizable value in SGAAP. These differences, lent support to the many classifications and measurement changes visible in table 4.

Assets in insurance operation item had been affected due to new regulation in IFRS 4 which mainly brought about changes in the classification of contracts and valuation of deferred acquisition cost.

Like non-financial companies, it is noticeable that the items with the highest amount of changes have also the highest amount of variability in table 5. This again reemphasizes that conclusion should not be made out of overall averages and each individual company's financial position should be monitored for true knowledge of the amount of changes in each company.

Q3: Comparison of line items affected with previous narrative disclosure

A review of previous narrative disclosures one year before transition to IFRS (2004) identified the accounting issues most frequently referred to in notes addressing the possible changes due to transition to new accounting standards in financial statements of companies across the sample.

In non-financial companies , goodwill, financial instrument, minority interest and business combinations were accounting issues mostly referred to by companies one year before transition to IFRS whereas the most important adjustment really made the very next year shown in table 2 are short-term investment, cash and cash equivalents, biological assets and goodwill and intangible assets. This could be interpreted in a way that non-financial

companies had lack of preparation for transition to IFRS, but, considering the fact that relatively small proportion of non-financial companies disclosed beforehand these most prevalent adjustments (except for goodwill) prior to the publication of reconciliations in 2005, seems to be an indicator of variability of adjustments in reconciliations rather than only indicator of lack of through preparation. Additionally, financial instrument was one of the most frequent issues that were disclosed in narrative disclosures prior to transition, but the real adjustments in reconciliations(according to table 2) did not hold that. Table 6 shows that financial instrument is one of the major concerns (second after goodwill) prior to transition, but the data in table 2 does not show that there is major adjustment with the same importance regarding financial instrument(not even in the first four items). One possible justification is that, adjustment were not so large when considered in general scheme of things, but companies, as a result of popularity of news[8] about a new standard for financial instrument in media, wished to flag up that there would be changes in this largely disputed area or, probably, returning back to theoretical discussion on signaling theory, companies tried to "signal" to market their accounting policy regarding financial instrument.

In financial companies, a situation is a bit different from non- financial companies. Data in table 6 shows that financial instrument was one of the major concerns for companies prior to transition to IFRS and respectively the data in table 4 illustrates companies were true in their predictions. The possible reason is the importance of financial instrument for financial companies. Extremely interestingly enough, Goodwill and intangibles was one of the issues-after financial instrument – that was mentioned a lot in narrative disclosures prior to transition. However, as table 4 indicates goodwill and intangibles are not even in the first 15 mostly affected issues in financial companies. The reason behind this in not clear- cut for researcher but it may have something to do with existence of less intangible assets in financial companies.

Q 4 effect of individual standards:

Empirical findings about average effect of standards on reconciliation are ranked in tables 7 and table 9, respectively for non-financial and financial companies. The findings in these tables reinforce some of the adjustments that identified in line item analysis in second research question.

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[8] .When IAS 39 was supposed to be implemented in Europe, it had lots of opponents. The most active opponents were French President Chirac and the banking industries. Under IAS 39, banks must report fair values of their financial instruments and will thus experience increased volatility in their balance sheets and earnings. This may affect investor and regulator views of financial institutions' stability. During the development of IAS 39, President Chirac took sides with French banks and expressed his concerns about the standard. As a result, the European committee endorsed IAS 39 with a carve-out to allow hedging accounting for banks' core deposits, which is forbidden in both US GAAP and IAS 39(Sodestrom and Sun, 2007).That's why this standard made lots of news and widespread discussion.

In non-financial companies, IFRS 3 reinforced the importance of goodwill and intangible assets that was ranked fourth item in line item analysis and IAS 41 reinforced the importance of biological assets ranked third in line-item analysis. They also reiterate and highlight the differences mentioned in theoretical framework regarding the most important differences between SGAAP and IFRS.

In financial companies, there is a concise conformity between the rank of first line item, the other financial asset and respective standard, IAS 39.This reinforced the importance of adjustments in financial assets as one of the crucial components in assets of financial companies. One of the most crucial differences between SGAAP and IFRS is picked up in Table 9 regarding investment property. Once again, as mentioned in theoretical framework, investment properties are allowed to be reported by fair value according to IAS 40 whereas, in SGAAP it was measured by historical cost.

Likewise the analysis of adjustments by line items, it is of particular relevance here to consider the standard deviation of the adjustments of particular accounting standards. These are presented in table 8& 10. Once again, it is easily discernible that the standards with the highest effects on the adjustments have the largest standard deviations. This endorses the previous assertion that individual financial statements should be examined for knowledge of effects of individual standards and line items .Therefore, result are not generalisable in this context(i.e. in average, each companies' X line item increased or decreased by Y percent and standard X, on average, increased or decreased equity by Y percent.)

One surprising and unanticipated finding regarding standard deviation of standards is that the level of variability in financial companies is higher than non-financial companies. Perhaps, for instance, regarding the high level of variation of IAS 39 in financial companies, the existence of carved out version of IAS 39 and the full version of it, caused some different interpretation of this particular standard in different financial companies, although the companies in Sweden were supposed to comply with carved out version of IFRS (the version endorsed by EU).

6. Final conclusion:

> *This chapter demonstrates the conclusion the author drew .Moreover; it gives a overall answer for all research questions .It also recap the most important findings presented in previous sections. Furthermore, suggestion for further research is presented.*

The Swedish accounting practice is sometimes believed to be of "continental European" model of development. Hallman (2008), asserts that conservatism used to be a primary accounting principle in countries such as Germany and Sweden and it still appears to be a concept that is often referred to in connection with practical discussions regarding the accounting treatment of specific items and events. In other cases, researchers believe Swedish accounting practice is unusual example of a country torn between the two approaches, with a formal legal accounting system based on a binding tax-accounting link and a private-sector, standard-setting body seeking to break that link (Blake J, 1997). IFRS development model is perceived to be in the category of the 'Anglo-Saxon' model. Therefore, financial statement users can expect companies to make lots of adjustment in their reconciliations from Swedish GAAP to IFRS. The findings in this research show that this expectation holds water as the study showed that net assets under Swedish GAAP are significantly different from net assets under IFRS. This paper provides a benchmark against other jurisdictions that transited from other conventions to IFRs. High variances that were shown in line item and standard deviation of adjustments affirm that individual financial statements should be sought for knowledge of the extent of adjustments in each company. Finally, as a foregone conclusion, the importance of line item adjustments and the effects of particular standards seems to be dependent on circumstances of individual companies, whereas , overall effect on companies' equity suggest that the effect is attributable to national differences in accounting(IFRS and SGAAP) as the paired sample t-student test reaffirmed this hypothesis.

6.1. Suggestion for further research:

 Based on their analysis,   SELLHORN and TOMASZEWSKI (2006), highlighted two important areas of   future research beyond the consolidated financial statement of companies. First, at the country level, the interaction of IFRS and individual financial statements will need to be reassessed. The research in this paper falls into this category of suggested research according to their categorization. Additionally, they believe research could help introduce a degree of differentiation into financial reporting regulation for unlisted firms, because these firms are not a homogeneous group. Also, the convergence of national GAAP systems with IFRS will benefit from fresh research insights. *Second, at the firm level*, future research could analyze the extent, to which the determinants and consequences of IFRS adoption, an area well researched for publicly traded firms (e.g. Cuijpers and Buijink, 2005), generalize to unlisted firms. Such research will help detect emerging patterns of accounting systems

within an international context. It will generate insights into the disconnect of consolidated accounts from national influences, the degree of uniformity of consolidated accounts among international firms, the continued relevance of traditional classifications of international accounting systems for individual accounts and accounts of unlisted companies, and the convergence of national standards with IFRS.

The author of this paper, suggest the second category brought up by SELLHORN and TOMASZEWSKI(2006) as a good topic for further research in the context of unlisted companies previously complying with SGAAP and have adopted voluntary adoption of IFRS. In this paper, author dealt in depth with the effect of transition to IFRS on the financial statement of listed companies in Stockholm stock market and it would be a great idea to do the same research for unlisted companies. The latter, can detect emerging patterns of accounting systems in Sweden and even give more insights about the findings regarding high variability of IFRS effects. In more compelling words, by doing this research, probably, the researcher can draw some insights about why there is huge variances in different companies regarding transition to IFRS.

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Appendix 1 "Companies included in the study (sampling frame)"

Companies included in the study(sampling frame)														
N	Company	Industry	N	Company	Industry	N	Company	Industry	N	Company	Industry
1	AarhusKarls...	Consumer staples	22	Björn Borg	Consumer discretionary	43	HEBA B	Financial	64	Klövern	Financial
2	ABB Ltd	Industrial	23	Boliden	Material	44	Hemtex	Cosumer discretionary	65	Kungsleden	Financial
3	Active Biotech	Health care	24	Brinova Fas...	Financial	45	Hennes & Ma...	Cosumer discretionary	66	Latour A	Financial
4	Addtech B	Industrial	25	Bure Equity	Financial	46	Hexagon B	Industrial	67	Lawson Soft...	IT
5	Alfa laval	Industrial	26	Cardo	Industrial	47	HEXPOL B	Industrial	68	LBI Interna...	IT
6	ASSA ABLOY B	Industrial	27	Castellum	Financial	48	HiQ Interna...	IT	69	Lindab Inte...	Industrial
7	AstraZeneca	Health care	28	Cision	Industrial	49	Holmen B	Material	70	Loomis B	Industrial
8	Atlas Copco A	Industrial	29	Clas Ohlson B	Consumer discretionary	50	Home Proper...	Consumer discretionary	71	Lundbergför...	Financial
9	Atrium Ljun...	Financial	30	Duni	Consumer discretionary	51	HQ	Financial	72	Lundin Mini...	Material
10	Autoliv SDB	Consumer discretionary	31	East Capita...	Financial	52	Hufvudstaden C	Financial	73	Lundin Petr...	Energy
11	Avanza Bank...	Financial	32	Electrolux A	Consumer discretionary	53	Husqvarna B	Cosumer dis	74	Meda A	Health care
12	Axfood	Consumer staples	33	Elekta B	Health care	54	Höganäs B	Material	75	Mekonomen	Consumer dis
13	Axis	IT	34	Eniro	Consumer discretionary	55	Industrial ...	IT	76	Melker Schö...	Financial
14	B&B TOOLS B	Industrial	35	Ericsson A	IT	56	Industrivär...	Financial	77	Metro Inter...	Consumer dis
15	BE Group	Industrial	36	Fabege	Financial	57	Indutrade	Industrial	78	Millicom In...	Telecommunication
16	Beijer Alma B	Industrial	37	Fagerhult	Industrial	58	Intrum Just...	Industrial	79	Modern Time...	Consumer dis
17	Beijer B	Industrial	38	Fast Partner	Financial	59	Investor A	Financial	80	Morphic Tec...	Industrial
18	Betsson B	Consumer discretionary	39	Getinge B	Health care	60	ITAB Shop C...	Industrial	81	Munters	Industrial
19	Billerud	Material	40	Gunnebo	Industrial	61	JM	Cosumer dis			
20	BioInvent I...	Health care	41	Hakon Invest	Consumer staples	62	KappAhl	Cosumer dis			
21	Biovitrum	Healtha care	42	Haldex	Industrial	63	Kinnevik A	Financial			

Appendix 1 "Companies included in the study (sampling frame), continued"

Companies included in the study(sampling frame)								
N	Company	industry	N	Company	Industry	N	Company	Industry
82	NCC A	Industrial	102	SCA A	Material	122	TietoEnator	IT
83	Neonet	Financial	103	SCANIA A	Industrial	123	TradeDoubler	IT
84	Net Insight B	IT	104	SEB A	Financial	124	Transcom Wo...	Industrial
85	New Wave B	Consumer discretionary	105	Seco Tools B	Industrial	125	Trelleborg B	Industrial
86	NIBE Indust...	Industrial	106	SECTRA B	Health care	126	Unibet Group	Consumer dis
87	Niscayah Gr...	Industrial	107	Securitas B	Industrial	127	Wallenstam B	Financial
88	Nobia	Consumer dis	108	Skanditek	Financial	128	VBG GROUP B	Industrial
89	Nordea Bank	Financial	109	Skanska B	Industrial	129	West Siberi...	Energy
90	Nordnet B	Financial	110	SKF A	Industrial	130	Wihlborgs F...	Financial
91	Orc Software	IT	111	SkiStar B	Consumer dis	131	Volvo A	Industrial
92	Oriflame, SDB	Consumer staples	112	SSAB A	Material	132	Vostok Naft...	Financial
93	PA Resources	Energy	113	Stora Enso A	Material	133	ÅF B	Industrial
94	Peab B	Industrial	114	Sv. Handels...	Financial	134	Öresund	Financial
95	Q-Med	Health care	115	SWECO A	Industrial	135	Ballingslov	Industrial
96	Ratos B	Financial	116	Swedbank pref	Financial			
97	Rezidor Hot...	Consumer dis	117	Swedish Match	Consumer staples			
98	RNB RETAIL ...	Consumer dis	118	Systemair	Industrial			
99	SAAB B	Industrial	119	SäkI	Financial			
100	Sandvik	Industrial	120	Tele2 A	Telecommunication			
101	SAS	Industrial	121	TeliaSonera	Telecommunication			

Appendix 2 "Companies excluded from study"

Companies excluded from study				
Dual or multiple listed companies not using IFRS	**Taken over**	**Using other standards than Swedish GAAP before transition to IFRS**	**Different transition date to IFRS(not fiscal year 2005)**	**split from group after transition to IFRS**
ABB(US GAAP)	AarhusKarls...	Astrazeneca(UK GAAP	Telia Sonera	Loomis
Auto liv(USGAAP)		Millicom(USGAAP)	Bjorn Borg	
Lundin Mining(CAN GAAP)		Oriflame(LUXGAAP)	Duni	
Säkl(SwedishGAAP)		Stora enso(Finnish GAAP)	Kappahl(the group formed in 2005 and made no reconciliation)	
		Tietonator(Finnish GAAP)	Systemair	
		West siberian resources	Wilhsborg	
		Vostok Nafta	Rezidor Hot	
		Metro(LUXGAAP)	Niscayah	
		Transcom(LUXGAAP)	Melker schörling	
		Unibet(UKGAAP)	Hexpol	
			East capital explorer	
			BE Group	
Total number of companies excluded from sampling frame: 28 Total number of companies in the final sample :135-28= 107				

Appendix 3 "what is reconciliation?"

According to IFRS 1, a first-time adopter should explain how the transition to IFRS affected its reported financial position, financial performance (income statement) and cash flow. In order to comply with the requirement, reconciliation of equity and profit and loss as reported under previous GAAP to IFRS should be included in the entity's first IFRS compliant financial statements. Preparing reconciliation of equity which is relevant to the aim of this research starts with ending balance of all items in balance sheet according to SGAAP .Subsequently, effect of changes due to transition to IFRS are added or deducted from balances according to SGAAP and consequently, balances according to IFRS are derived from these calculations. As mentioned before in collection of data section, reconciliations were either so comprehensive (detailed) or so short and perfunctory which presented enormous amount of challenge for researcher. To provide insightful explanation of what reconciliation is, two samples of reconciliations are presented here:

Example of detailed reconciliation provided by line item and standard[9]

According to SGAAP

Balance sheet, MSEK	2004 31 Dec	IFRS 3	IAS 19	IAS 41	2004 31 Dec IFRS	IAS 39	2005 1 Jan IFRS
Assets							
Intangible fixed assets							
Goodwill	491	32			523		523
Other	36				36		36
Tangible fixed assets	12,153				12,153		12,153
Biological assets	6,201			2,421	8,622		8,622
Shares and participations	1,754				1,754		1,754
Other receivables	20				20		20
Deferred tax receivable	304	–11	–20		273		273
Current assets							
Inventories	2,399				2,399		2,399
Current receivables	2,750				2,750	145	2,895
Financial receivables	92				92	13	105
Liquid funds	367				367		367
	26,567	21	–20	2,421	28,989	158	29,147
Equity and liabilities							
Equity	13,737	21	45	1,720	15,523	34	15,557
Minority interest	112				112		112
Deferred tax liability	4,476			701	5,177	13	5,190
Financial liabilities							
Long-term	2,992		–65		2,927		2,927
Short-term	2,408				2,408	73	2,481
Operating liabilities	2,842				2,842	38	2,880
	26,567	21	–20	2,421	28,989	158	29,147

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[9] . http://www.holmen.com/Main.aspx?ID=5180ce7d-9d06-4856-864b-8266e62da158

As it is remarkable, the reconciliation is in standard format and gives comprehensive information by providing adjustments by line item and by standard. The reconciliation starts with balance sheet balances according to SGAAP and adjustments are followed to arrive at balances according to IFRS.

Example of perfunctory reconciliation (not giving enough information)[10]

Balance Sheet 31 December 2004

SEKm	Closing balance 2004 Previous accounting standards	Closing balance 2004 New accounting standards IFRS 1–4	Opening balance 2005 New accounting standards incl. IAS 32 and 39
Cash and cash balances with central banks	12,979	12,979	12,979
Eligible Treasury Bills etc.	117,464		
Loans to credit institutions	207,724	208,226	208,554
Loans to the public	783,019	783,355	786,551
Bonds and other interest-bearing securities	142,358		
Shares and participations	19,312		
Financial assets at fair value		375,698	387,801
Available-for-sale financial assets		140,032	135,290
Held-to-maturity investments		15,536	13,781
Assets in insurance operations	155,021		
Investments in associates	1,323	2,086	2,135
Intangible fixed assets	10,145		
Tangible and intangible assets	3,461	21,667	21,432
Other assets	127,139	46,972	47,001
Prepaid expenses and accrued income	11,373		
Total assets	**1,591,318**	**1,606,551**	**1,615,524**
Deposits by credit institutions	357,188	370,483	361,755
Deposits and borrowing from the public	517,520	516,513	516,836
Liabilities to policyholders		143,545	143,545
Debt securities	266,693	268,368	268,124
Liabilities in insurance operations	147,753		
Financial liabilities at fair value		151,318	177,137
Other liabilities	199,252	72,182	65,156
Accrued expenses and prepaid income	13,424		
Provisions	7,587	1,575	1,705
Subordinated liabilities	30,804	30,804	30,868
Total liabilities	**1,540,221**	**1,554,788**	**1,565,126**
Minority interests	89	85	85
Revaluation reserves			1,015
Shareholders' equity	51,008	51,678	49,298
Total equity	**51,097**	**51,763**	**50,398**
Total liabilities and equity	**1,591,318**	**1,606,551**	**1,615,524**

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[10] . http://www.sebgroup.com/pow/wcp/sebgroup.asp?website=TAB3&lang=en