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Master Degree Project in Accounting

Accounting Communication in Life's Largest Investment

The role of the annual report in a purchasing situation of a housing apartment

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Abstract

Background and problem: Purchase of a housing apartment is a situation where a private individual, often an inexperienced user of accounting information assess the financial state of affairs of a housing association by examining a communicative document; the annual report. In a Swedish context a housing association is an organizational form with special characteristics, which should affect the information they present in the annual report. The current debate among accounting and industry specialist reveals that the housing association's annual report in its current form does not present relevant, understandable and comparable information for the users. One particular group of are the buyers of housing apartments who in order to assess the financial state of affairs need to rely on financial information received in the annual report.

Purpose: The purpose of this study is to explore how well the annual report achieves its role as a communicative document, for a buyer assessing the housing association's financial state of affairs in a purchase situation of a housing apartment.

Research question: How well does the annual report achieve its role as a communicative document in a purchase situation of a housing apartment?

Research Design: The research question was studied using an exploratory case study in order to get an understanding of a relatively unexplored topic. Twelve respondents, six buyers and six real-estate agents were studied using semi-structured interviews. These in-depth observations were complemented with information from a document study containing six annual reports. Consequently this study consists of six cases each containing two interviews and one annual report.

Analysis and conclusion: The findings suggest that housing associations' annual reports in its current form do not provide relevant, understandable and comparable information for buyers in a purchasing situation. The answers from the respondents indicated that the level of complexity was high and the level of relevance was low in the annual reports. The document study revealed that the amount of voluntary disclosures varied significantly among the different annual reports and consequently the possibility to compare financial information between different housing associations was low. Buyers who are often non-professional users of accounting information need to obtain more disclosures that currently are voluntary. A new regulatory requirement for housing associations that include key ratios, maintenance plan and other relevant information made in a standardized, educational and visual way is needed to better reflect the financial state of affairs of the housing association. The findings in this study indicate that housing associations' annual reports do not achieve their role as a communicating document and as providers of information relevant for decision-making.

Keywords: Housing association, Annual report, Accounting communication, Non-professional users of accounting information

Glossary

Housing association = an economic association whose object is to grant housing apartments to the members of the association.

Housing apartments = a share of a housing association, with the right of living in the apartment for an unlimited period of time, which includes the mandatory payment of a monthly membership fee.

Member of the housing association = a member who owns a housing apartment and who is dependent on the financial state of affairs of the housing association

Industry experts = individuals with expertise within the real-estate and housing association industry

Laymen = private individuals who are non-professional users of accounting information

Result = bottom line result in the income statement (net income)

Statutes = the housing association's internal regulation

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Chapter 1 Introduction

1.1 Background

For many individuals the purchase of a housing apartment is the largest economic affair they will ever do. Approximately 15% of the Swedish population is currently living in housing apartments owned by non-profit housing associations (SCB, 2014). A housing association is an organizational form different from traditional non-profit associations. To be granted access to housing apartments provided by the housing association, the potential buyer need to purchase the equivalent share to become a member of the association. Once the buyer of the housing apartment becomes a member, he/she also become a payer of an mandatory monthly membership fee. The amount of the membership fee usually depends on the financial state of affairs of the housing association (Bolagsverket, 2012; FAR, 2014). This means that, the buyer, in order to avoid unexpected changes in the membership fees needs to assess the housing associations financial state of affairs before he/she decides to purchase a housing apartment.

To make an assessment of a housing association's financial state of affairs, potential buyers need to obtain relevant information about the housing association they intend to invest in. It is therefore vital that information available for the buyer correctly displays the past, the current and the future economic situation of the housing association (Borättupplysning, 2012; FAR, 2015). Annual reports are supposed to provide a true and fair view of an organization's financial position (Marton, 2013). The role of the annual report therefore becomes crucial in a situation where a buyer considers one of life's largest investments, a purchase of housing apartment.

1.1.1 Layman – a non-professional user of annual reports

Buyers of housing apartments are usually individuals who are not necessarily educated accountants and whose level of financial literacy is rather low (Lunden, 2014). These non-professional users of accounting information (laymen) might not be able to understand accounting information provided in annual reports. Young (2006) discuss that financial information is a tool that cannot be used by those who are unable to understand the information received. This is illustrated in a study by Sun (2007), who draws the conclusion that the understandability of Chinese listed companies' annual reports is not comprehensible for non-professional user which in his study is defined as first year accounting graduates. Haskins & Sells (1983) have a similar discussion, they suggest two different annual reports, where one extensive version is aimed towards professional users and another simpler version is aimed for laymen. To have different versions of the annual report for different users is thereby suggested to be one way to increase the understanding of annual reports among laymen. This is in-line with the suggestion of Beattie & Pratt (2002) who argue that private shareholders are prioritizing other information from annual reports, than professionals. Private shareholders usually put a higher value on summaries of financial performance and key ratios (Beattie & Pratt, 2002).

As mentioned in the paragraph above, the purchase of a housing apartment is a complex and special situation. Following, many buyers ask professionals for advice regarding the assessment of the annual report. In Sweden a buyer can ask a real-estate agent for advice, since Swedish legislation state that the real-estate agent should represent both the buyer and the seller (Fastighetsmäklarlag, 2011:666).

1.1.2 Current debate on the role of annual reports in housing associations

It is mandatory for housing associations to prepare and present annual reports, which should contain a management report, income statement, balance sheet and notes (Bolagsverket, 2015). Lunden (2014) suggests that annual reports also should contain voluntary disclosures such as maintenance plan, cash flow analysis, and key ratios customized for housing associations as a complement to the mandatory parts in order to better display the financial state of affairs. A similar opinion emphasized by Svernlöv & Stattin (2014) is that mandatory information in housing associations annual reports does not provide sufficient information for decision making.

The buyer's assessment of the housing association's financial state of affairs is dependent on the information received from the annual report. What information the annual report displays for the buyer is dependent on what information the housing association are obliged to display. The regulations the housing associations need to follow are complex and not customized to fit a housing association (FAR, 2015). These regulations are instead made for profit seeking organizations. Therefore FAR suggests that a change of regulations is needed to display the housing association's financial state of affairs in the annual report more correctly. FAR (2014) and Lunden (2014) suggest that a new accounting regulation should be formed in order to cover the uniqueness of housing associations. The main reason why FAR, believes that a new accounting regulation is required is to ensure that the housing association focus on the economic information relevant for users. The new accounting regulation should according to FAR focus on an economic plan containing maintenance plan, cash flow analysis, future investment strategies, key ratios and future monthly membership fees. FAR argues that these changes would increase the understandability of the housing associations annual reports. Since many users, including members and buyers, are laymen when it comes to financial information and understanding annual reports the information suggested by FAR would be more understandable and relevant for economic decision-making than the current mandatory information in housing association's annual reports (FAR, 2014).

1.2 Problem discussion

What separates the purchase of a housing apartment from the purchase of other assets such as a real estate [fastighet] is that the buyer purchases a share of a housing association and becomes a member of the association. The member becomes dependent on the financial state of affairs of the housing association, which will affect future monthly fees, and ultimately the value of the housing apartment (Lunden, 2014). In a purchase situation of a housing apartment buyers have to understand and assess the information received from the annual report in order to decide if the economy in the association is stable and how the financial state of affairs will affect future monthly fees.

The assessment of a housing association's financial state of affairs is often problematic due to the fact that annual reports in many cases do not display information relevant for decision-making (Lunden, 2014). This because accountants producing information in the annual reports are following a regulation not customized for housing associations (Svernlöv & Stattin, 2014). The ongoing debate among industry and accounting specialist reveals that there is a demand for a change in the accounting regulation for housing associations to improve the information presented in the annual reports. Information that is currently voluntary such as key ratios, maintenance plan, cash flow analysis and explanations of accounting choices are suggested by FAR (2014) to be mandatory in order to increase the relevance for buyers when assessing the financial state of affairs of the housing association.

Another feature that makes the assessment of annual reports interesting is that many buyers of housing apartments are laymen in the field of accounting and consequently are inexperienced users of annual reports. Literature states that information useful for economic decision-making is the essential information annual reports should communicate to users (Young, 2006). However FAR (2014) and Lunden (2014) argues that current mandatory information in housing associations annual reports do not present information relevant and understandable for the buyers who often are laymen in their economic-decision making.

1.3 Research question and purpose

To address the problem articulated above, this study aims to answer the following research question:

How well does the annual report achieve its role as a communicative document in a purchase situation of a housing apartment?

The purpose of this study is to explore how well the annual report achieves its role as a communicative document, for the buyer in the assessment of the housing association's financial state of affairs in a purchase situation of a housing apartment.

1.4 Research approach

Aiming to answer this study's research question, we approach our research problem from the perspective of accounting communication. To address the communication between the buyer and the annual report, we are using a theoretical aspect of accounting as a communication process. According to Bedford & Baladouni (1962) the annual report is the document that fills the information gap between the organization and their users, which is the foundation for this study.

1.5 Contribution

We are contributing to the existing research regarding the role of annual reports as communicative documents. We are using a case of housing associations in Sweden, to illustrate how well the annual report achieve its role as a communicating document in the assessment of the housing association's economy, in the purchase situation of a housing apartment. Furthermore another contribution will be to focus on non-professional users (buyers) in a purchasing situation of a housing apartment and thereby contributing to existing research regarding nonprofessional users of annual reports.

1.6 Delimitations

In this study we have chosen to focus on the buyer, although other users of housing associations annual report exist. Further we have chosen to conduct this study in Sweden since housing associations is a common way of living in Sweden and an important part of the Swedish real-estate market. Other settings including non-professional users of annual reports exist but the case of housing associations in Sweden provides a snapshot of the situation when laymen uses the information of annual reports for economic decision-making.

Chapter 2 Theoretical framework

We start by introducing the accounting communication theory in 2.1. In section 2.2 a communication theory model of accounting is presented. In section 2.3 the main features of the annual report as a communicative document are displayed. 2.4 provide a description of the annual reports as a source of information relevant to potential buyers investing in housing associations. 2.5 describe potential problems for buyers assessing g housing associations. 2.6 describe key ratios industry experts suggest to be included in housing association's annual report. 2.7 is a summary of the literature review.

2.1 Accounting as communication

Laymen normally see accounting as a complex way of measuring and displaying an organization's performance. Jack et al. (2013) state that accounting is understandable for non-professional users if the users and the preparer communicate accurately. The authors argue that accounting is as much about measuring and calculating the right numbers, as it is about communicating the displayed numeric information in an understandable way. Thus, to make accounting relevant the accountants need to consider what information the users want and how the users can get it in the best way (Jack et al., 2013; Rimmel et al., 2016).

To give users the right information the accountant should display all relevant economic information. The annual report should be produced with the intention to provide an objective picture of the company's economic position to their stakeholders (Jack et al., 2013; Rimmel et al., 2016). The communication between an organization and the user is however not always functioning as good as it should. Rimmel et al. (2016) state that annual reports do not provide the user with enough relevant information. This since non-professional users lack economic education and experience in reading annual reports and the fact that annual reports are mainly made for professionals (Rimmel et al., 2016). Even non-professional users should be able to see and understand how the organization has performed and how they are predicting the future (Jack et al., 2013; Sabelfeld, 2016).

Lee (1982) describes accounting as a function of transmitting signals about economic transactions with the intention of influencing the users of accounting information to improve their economic decision-making. Lee emphasizes that ideal communication occur when the message is interpreted as if the users have experienced the economic transactions on their own. Lee's argument stands in contrast to Bedford & Baladouni (1962), who state that the concept of communication includes a process that is ongoing and continuous. They view accounting as a process where relationships and communication between the participants in the accounting network decides the quality of the accounting output. Bedford & Baladouni (1962) suggests that communication needs to involve three basic elements, the source, the message and the destination. The relationship between the source and the destination is the foundation of a functioning communication. The source faces two major problems; what to communicate and how to communicate in order to express the message adequately (Bedford & Baladouni, 1962). According to Lee (1982) the adequacy of communication instead depends on three reasons; the skills of the preparer (source), the perceptual skills of the user and lastly that the translation of events into signals and signals into messages is efficient.

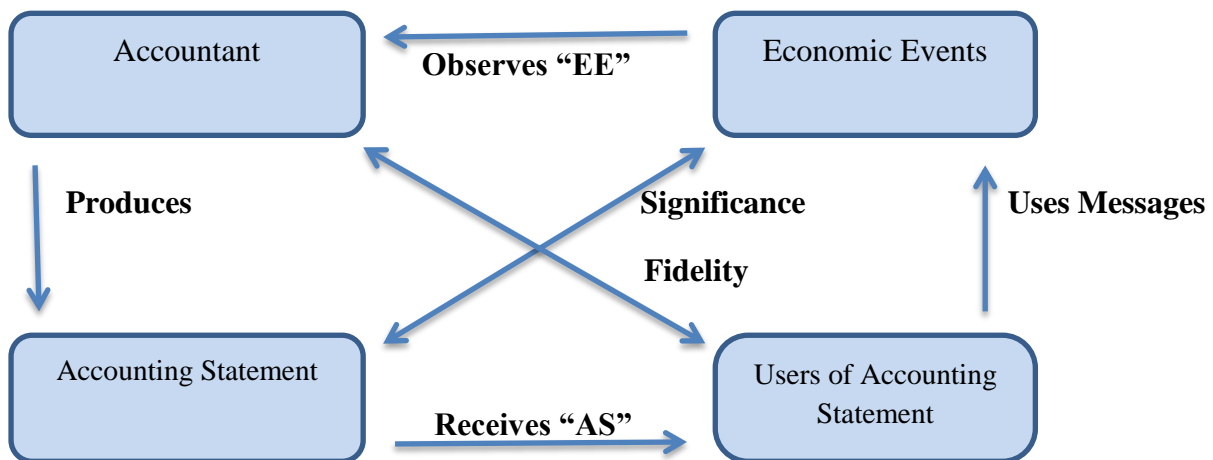
2.2 The model of accounting communication

One important issue in accounting is that the message sent by the accountant to the user is relevant (Bedford & Baladouni 1962). In order to increase the comparability of accounting information Lee (1982) argues that accounting information should be general to all users. This is contradictory to the standpoint of Bedford & Baladouni (1962) who argues that information needs to be relevant for a particular type of user.

The model below is inspired by the article "A Communication Theory Approach to Accountancy" by Bedford & Baladouni (1962). The basic elements of this model are the accountant, Accounting statements, Users and Economic events. The figure illustrates how an accounting communication process might look like. In short it presents a schedule about how the Accountant produces the Accounting Statement that is received by the User which uses the information in Economic events (decision-making).

Two major implications are emphasized. The connection between the Accountant and the User involves a dimension of fidelity. Fidelity means that there is a correspondence between what is understood by the user of the accounting statements with what the message is intended to contain expressed by the Accountant. The other dimension emphasized is significance, which in this case refers to the degree of relevance and adequacy that accounting statements have in relation to economic events (Bedford & Baladouni, 1962).

Figure 1. The Matrix of Communication



Authors own illustration of Bedford and Baladouni's "model of accounting communication"

For annual reports to be significant and to have high fidelity the information has to be understandable (Bedford & Baladouni, 1962). One problem in the communication process is noise. Noise can occur in the accountant's production or in the user's interpretation of the accounting information (Bedford & Baladouni, 1962). One reason behind noise is that the users lack the necessary skills to understand the linguistic code of the accountant and does not possess the economic knowledge necessary to interpret the message of the accountant (Bedford & Baladouni, 1962). Further Lee (1982) argues the users depend on comparable and understandable information, which can be applied to their specific purpose.

2.3 The annual report as communicating document

According to Hooks et al. (2002) the annual report is the document, which discloses most information about an organization. Parker (1982) suggests that annual reports should be made for all users, not aimed at only a few specific. He further states that accountants in general have missed to ask the users what information they find relevant. Many annual reports are only made for professional users with knowledge and capacity to use the displayed information (Hooks et al., 2002). Young (2006) critically discuss accounting regulation and practice by emphasizing the need of the user perspective and the fact that the information needs of different users of accounting are not always addressed in the annual reports.

Complex information, which is difficult for users to interpret, can limit the usage (Parker, 1982). Kwolek (1973) introduced a good indicator of annual reports complexity in, where he graded how users perceive the information displayed in documents using an index. The index level from 14 and upward is too difficult for the majority to understand. Annual reports in general are classified on 17 to 19 on this scale (Kwolek, 1973). Both Parker (1982) and Kwolek (1973) argues that the complexity in the presentation of information in the annual reports might exclude many users, since a majority of users lack skills of how to interpret and find relevant information in annual reports. Hooks et al. (2002) state that organizations should not assume that all potential users are educated and know how to read annual reports.

According to Hooks et al. (2002) there is a demand of making annual reports more understandable for all users. This could, according to Parker (1982), be achieved by producing annual reports in a simpler format. Contradictory to Parker's (1982) study, Lang & Lundholm (1996) declares that complexity is not the essential reason why users have difficulty to interpret information. Lang & Lundholm (1996) state that a higher amount of voluntary disclosures can increase the amount of understanding among interested parties.

The information gap between producer and user might be mitigated by voluntary disclosures (Hooks et al., 2002). More extensive usage of voluntary disclosures normally improves the relevance of accounting information and enables the organization to better disclose their current economic situation (Taylor, 2013). Contradictory to this theory is Wen's (2013) study, which display that voluntary disclosure can be negative for valuation of an organization. Wen (2013) states that voluntary disclosure gives the organization opportunity to manipulate their accounting and disclose values that display the organization in a biased way. The possibility of manipulating annual reports forces investors to interpret them what is hidden in the voluntary disclosures (Dye, 1998). This creates an uncertainty from the investors, where some have enough information and others have not (Dye, 1998).

2.4 Annual reports in Swedish housing associations

Housing associations are a unique form of economic association. The purpose of a housing association's existence is to grant housing apartments to members of the housing association (Bolagsverket, 2016). The purpose differs from traditional profit-maximizing organizations which exist in order to maximize the welfare of their owners. Due to Swedish legislation housing associations are bound to follow the same accounting regulation as limited liabilities and other economic associations (Bolagsverket, 2012).

2.4.1 Users of housing associations' annual reports

Lunden (2014) states that tax authorities and employees are not equally important stakeholders in housing associations as in limited liabilities. Housing associations pay no

income tax and they usually have a very limited amount of employees. Instead, existing members and buyers of housing apartments are the important stakeholders. Consequently, these stakeholders are the main users of housing associations' annual reports (Lunden, 2014). A problem that members and buyers face is that they often lack economic knowledge and experience of reading annual reports (Hooks et al., 2002). The current accounting regulation for housing associations is made for professional users, which makes the annual reports incompatible with the needs of the inexperienced users (Lunden, 2014). One way for buyers to understand the annual reports is to engage a professional adviser. This action could mitigate the risk of not understanding the annual report. One professional to ask for advice is the real-estate agent, since they have an economic education and are experienced in reading housing association's annual reports (Lunden, 2014).

The buyers of housing apartments could be compared to shareholders in limited liabilities. Both parties are interested in valuation of an asset and want to have certain knowledge about what they invest in and how the investment is managed financially (Hooks et al., 2002; Lunden, 2014). The potential buyers could study the housing association's economy in order to get a picture of the financial state of affairs of the housing association. Key ratios such as solidity, debt ratio and leverage, as well as the maintenance plan and cash flow analysis of the housing association, is relevant information to study in order to estimate how the monthly fees and the price of the housing apartment will change in the future (Lunden, 2014).

2.5 Problems with housing associations' annual reports

When a buyer of a housing apartment assess the economy of a housing association it could be relevant to compare different housing association's annual reports to get a better understanding of the underlying economic stability of the housing association. Factors that decrease the possibility to compare are for example that housing associations have different amounts of voluntary disclosures in their annual reports and that some housing associations hire an accounting consultant for preparing annual report while others prepare the report in-house (FAR, 2015).

In the FAR (2015) report FAR, together with industry specialists HSB [The tenants savings banks and building association] and Riksbyggen, is discussing the need for relevant and comprehensible information for members and potential buyers. Their suggestions are to a large extent in-line with Lunden (2014) who suggests that standardized key ratios, more extensive disclosures and cash flow analysis are features that could increase the relevance, comparability and understandability of annual reports.

One problem for buyers when assessing the economy of a housing association is the fact that many housing associations have deficits at the bottom line in their income statements (Svernlöv & Stattin, 2014). The reason why deficits occur varies and it is often difficult for buyers to understand why a certain housing association has a deficit in their books while another has a profit. An example of a problem regarding the bottom-line result in the income statement is when the board is obliged to follow the association-statutes, which states that the housing association should strive to avoid deficit. If major depreciation costs are making it nearly impossible to produce a profit in the books the housing association probably has to raise the monthly fees in order to avoid a deficit.

Another reason why the result is an insufficient measure of the housing associations value is depreciation policies. Housing associations following the K2 regulation are nowadays obliged to conduct linear depreciation, but historically many housing associations have applied a

progressive depreciation policy (FAR, 2014b). However, if the housing association would follow the K3 regulation, it would not be mandatory to present linear depreciation (FAR, 2014b). In some housing associations the transition to linear depreciation has led to accounting deficits. This is an example of how an accounting policy can change the result in a housing association, which affects the information in the annual report. This displays how difficult it might be to use the result as a measure of the financial state of affairs for a buyer. A deficit in the income statement in limited liabilities is a sign of poor economic result and could in the long-run lead to bankruptcy and to lower dividends. In a housing association a deficit does not necessarily have to be negative. In fact it could be affected by depreciation policies and have little effect on the liquidity, which is a more important measure in a housing association (Lunden, 2014).

Instead of having an annual report which display the economic performance of the housing associations, Svernlöv & Stattin, (2014) argue that there is a need of an economic plan concerning what the housing association has done and what it intend to do in the future.

According to current regulations, all-important events that occurred during the year need to be included in the management report, which is a part of annual report. However, according to Boverket (2015) there is no regulation that forces housing associations to include an economic plan for the future in the annual report. An economic plan containing maintenance and other investments that might affect the amount of future debts, which in turn might increase future monthly fees, are not always included in the annual report since it is not mandatory. This has been criticized by FAR (2015) and Lunden (2014) who argues that such information would increase comparability and relevance of the annual report. The fact that the current regulation lack requirement of such information has led to a diversity among annual reports from different housing associations where some annual reports disclose information about a future economic plan and other do not include such information since it is not mandatory.

To avoid this diversity of information in housing association's annual reports Callert (2014) argues that housing associations should not follow the same legislation as limited liabilities and other economic associations. This argument is similar to what Svernlöv & Stattin (2014) argue that housing associations should not focus on annual reports; rather they should focus on liquidity and making a valid economic plan. Lunden (2014) states that in order to increase relevance for users a separate accounting regulation named "K5" should be applied. "K5" should according to Lunden be specifically designed for housing associations and the information should be relevant for their users. Svernlöv & Stattin (2014) authors also state that it is difficult to find comparable key ratios in the annual report.

Therefore, in next section we will focus on presenting key ratios that industry experts have suggested to be included in the housing associations annual reports to facilitate the usage of the annual report in a purchase situation.

2.6 Key ratios

To make annual reports easier to understand some housing association are complementing their annual reports with ratios and pedagogic presented numbers, which should increase the relevance, understandability and comparability of their reports (Lunden, 2014). In the following section we therefore present the key ratios that are suggested by Lunden, HSB, Borättsupplysningen and Borevision, to be the most relevant key ratios that should be included in a housing association's annual report.

Solidity

Solidity is a measurement of how much of the assets in the association that are financed by the members own investments, and is in its simplest form calculated by equity / total assets (HSB, 2015). According to Borättsupplysningen solidity provides an insufficient illustration of the housing associations status, since in total assets is the book value of the properties included. In other words, the depreciation of a property is affecting the total assets with the same amount as it is affecting the equity, and since the equity is a smaller amount, that number would be more affected. This result in that the rate equity / total asset decreasing over time and older housing associations will therefore get a lower solidity rate. This is a bit contradictory since if depreciation and amortization of the property follow each other solidity rates should be higher for old associations.

Liquidity

Second key ratio suggested by HSB is Liquidity. Liquidity is supposed to illustrate the association's capacity to pay their short-term debts. This is calculated by dividing current assets with current liabilities. Contradictory, Borättsupplysningen criticize the usage of liquidity as a key ratio, since they believe that the capacity for short-term payment do not affect the housing association's long-term financial state of affairs. Suggestion by industry specialists regarding liquidity is therefore that it is not a sufficient indicator of a housing association status, but it can give some hints about a housing association's current economic situation.

Leverage

HSB's third suggestion is leverage. This key ratio is calculated by dividing long-term debts / total living space. According to HSB leverage can demonstrate how much debt a housing association has and how sensitive they are for an increasing interest rate. Borättsupplysningen also advocates this key ratio. These two organizations state that measuring how large debt a housing association has per square meter is a good indicator of how indebted the association is. This ratio could be used when comparing housing associations of different size. Suggestion by literature regarding leverage is that it is a sufficient key ratio and a good indicator for comparisons between different housing associations debt structure (Lunden, 2014).

Debt ratio

An extension of the above mentioned leverage is to calculate how burdened with debt a housing association is (Borevision, 2014). This key ratio is aligned with what Borättsupplysningen is suggesting. This ratio is calculated by dividing long-term debts/equity (Borevision, 2014). The debt ratio illustrates the housing association's financial risk and how sensitive the housing association is for changes in the interest rate.

Maintenance plan

According to the statutes in many housing associations they should prepare a maintenance plan (HSB, 2015). This plan ensures that the association has financial resources when necessary. HSB, Borättsupplysningen and Borevision suggest that buyers should look at the maintenance plan to determine the future maintenance expenses. Information about future maintenance in the housing association should be well presented in the economic plan. FAR (2014a) states that the development of the maintenance plan could be presented in the annual report e.g. for a ten year period. The industry specialists suggests that the maintenance plan together with an economic plan for large investments should be included in the annual report since it has an impact on the future development of annual membership fees.

Cash flow analysis

The cash flow analysis is another key figure which should be included in the housing associations' annual reports (Lunden, 2014). Lunden (2014) states that housing associations should focus on the cash flow analysis. He further states that cash flow is more vital than the accounted results since the cash flow is not affected by depreciation; therefore should annual reports be more focused on cash flow. Borättupplysningen argues that a user of a housing association's annual report needs to understand the cash flow before they can understand the entire economic structure.

2.7 Summary

Communication model

To better illustrate and understand the complexity in the accounting communication process we use an accounting communication model. This model of accounting communication is applied to our research as it helps to connect important aspects of the studied phenomena to each other, such as economic events (the purchase of a housing apartment), accounting document (annual report) and users of annual reports (buyers of housing apartments). In accounting communication the annual report is the main document for communication that should provide understandable, relevant and comparable information for the users.

Annual reports of housing associations and their users

According to literature annual reports are often complex and aimed against users who are professional in the field of accounting. Literature states that information provided by annual reports to laymen should be understandable, relevant and comparable. In reality this might not always be the case since information often addresses professional users.

Housing associations are a special form of economic association that is forced to follow the same regulation as limited liabilities. The complication of the Swedish accounting legislation is that housing associations, which are a unique legal form, are bound to produce annual reports containing information that might not be useful for economic decision-making. Consequently, the buyer, who is often a layman in the field of accounting, might have problems of interpreting and finding relevant information for valuing the housing association's economy in a purchase situation of a housing apartment.

Key ratios

The key ratios presented display what information industry experts suggest the annual reports of housing associations should include, as a complement to the mandatory information. According to industry experts certain key ratios will increase the amount of understandable, comparable and relevant information in housing associations annual report. The key ratios presented in the theoretical framework will be used when we analyze the empirical data from interviews and annual reports of housing associations.

Chapter 3 Methodology

This chapter starts with an explanation of the process of choosing our research topic, 3.1. In sections 3.2 Research paradigm and 3.3 research design, we motivate our choice of research design. Sections 3.4 and 3.5 provide a description of how we collected, processed and analyzed primary and secondary data. Finally section 3.6 provides a discussion regarding the quality of the sources and the reliability and validity of this thesis.

3.1 Choice of research topic

The process of writing this thesis started with choosing a field within accounting. We decided to focus on the area of financial accounting, which excluded other areas of accounting research. One area of interest for us is the understandability and relevance of annual report as communicating document used for economic decision-making.

In the process of deciding on an interesting and valid research topic we discussed with Birgitta Vitestam-Blomqvist who is a researcher and expert in housing apartment purchase valuation questions at Malmö Högskola. Her opinions and experiences regarding valuation and information problems for buyers of housing apartments were valuable for us in order to understand in what particular area of research we have the possibility to contribute to. We also discussed the relevance of this topic with Anna-Karin Pettersson who is an auditor with special interest in tangible assets and a teacher at Handelshögskolan in Gothenburg. The ideas and opinions of Anna-Karin, Birgitta and our supervisor Svetlana Sabelfeld gave us a broader understanding of how we can contribute within this research area. Several newspaper articles especially in the accounting magazine "Balans", together with opinions from industry experts working for FAR, HSB, Riksbyggen, Borevision, Boverket and Borättsupplysingen debating this subject has provided us with further inspiration regarding the choice of subject.

3.2 Research paradigm

The research paradigm chosen for this thesis is an interpretivist paradigm. An interpretivist paradigm is aligned with our purpose of this thesis, which is to explore social reality in the form of how information received in annual reports is interpreted by users (Collis & Hussey, 2014; Smith, 1983; Creswell, 2014). We as researchers interact with the phenomenon being researched. In this case we interact with opinions of the respondents in our study and the information received when analyzing annual reports.

3.3 Research design

As we intend to study a socially constructed phenomenon we found it appropriate to conduct a qualitative study (Saunders et al., 2012). A qualitative study is when theories and models in the theoretical framework are developed and studied in order to understand the phenomenon of the study (Collis & Hussey, 2014). In our thesis an accounting communication theory model together with key ratios studied in the theoretical framework is used to analyze and understand the empirical findings. We have studied a social phenomenon in a particular situation to gain in-depth knowledge. Consequently a case study is a suitable methodology to our study (Collis & Hussey, 2014; Yin, 2009).

In our case study we have aimed to explore how well the annual report achieve its role as a communicating document in the purchasing situation for a buyer of a housing apartment. We use a case of housing associations in Sweden to illustrate the role of annual reports as communicating documents. Since this particular phenomenon is unexplored and the body of

knowledge regarding this topic is quite scarce, an exploratory case study is appropriate (Collis & Hussey, 2014). An exploratory case study is also preferable for us since it is flexible and adaptable to change which is an advantage when studying an unexplored phenomenon (Saunders et al., 2012). In this exploratory case study, we as researchers have aimed to gain insights about this phenomenon by interviewing buyers and real estate agents about their view on annual reports as communicating documents in a purchase situation of a housing apartment. Further, we have conducted a document analysis of housing associations' annual reports in order to provide a deeper understanding of how the information in annual reports is displayed.

3.4 Data collection

As this is a qualitative case study we have chosen to collect primary data using semi-structured interviews. The interviews contained twelve respondents; six buyers and six real-estate agents were studied. These in-depth observations were complemented with information from a document study containing six annual reports. Consequently this study consists of six cases each containing two interviews and one annual report.

3.4.1 Selection of respondents

As Arksey & Knight (1999) argue interviews are made in order to explore opinions and understandings of the respondents. Therefore we have chosen to conduct interviews with buyers and real-estate agents involved in a housing apartment purchase to explore the role of annual reports as communicating document in this situation (Saunders et al., 2012).

When choosing the respondents, it was essential that they had been involved in a purchase situation of a housing apartment. Buyers were interviewed since they are supposed to use housing association's annual report as a valuation tool for economic-decision-making. Real-estate agents were interviewed since they are supposed to provide support in the valuation process for buyers of a housing apartment.

Since we are conducting a qualitative case study we have chosen not to collect a random sample. A non-random sample can be used when it is important to include people with experience of the phenomenon being studied. We carefully select a number of cases representing the studied phenomenon as researchers (Collis & Hussey, 2014). This study needed to include respondents with experience in buying housing apartments and therefore we performed a so-called snowball sampling when selecting respondents. We started by contacting one buyer we already knew, that buyer in turn gave us a continuing sample by suggesting another buyer. We also asked every buyer about the real-estate agent responsible for his or her housing apartment affair. This enabled us to continuously have two actors to interview, which were involved in the same purchasing situation of a housing apartment.

3.4.2 Selection of documents

Secondary data is collected in the form of housing associations' annual reports. The annual reports are collected as a complement to the interviews. The annual reports studied have increased our understanding of what information housing association's annual reports contain in practice and how the information is displayed to the users. We have chosen to analyze the particular annual reports available for our buyer respondents in their purchasing situation of a housing apartment. This selection was made in order to complement the information from the interviews to be able to increase our understanding of the information available in the annual report in the situation of a housing apartment purchase.

3.5 Interviews

To be able to answer our research question we conducted semi-structured interviews. Semi-structured interviews are especially valid in studies where the researcher is trying to study how the respondents perceive the world. The advantages by conducting semi-structured interviews are that they are suitable to understand the ideas, opinions and beliefs of the respondents (Qu & Dumay, 2011).

The interviews were planned in advance and the respondents were contacted in order to find a time when the interviews could be held. The interviews took about half an hour sometimes more sometimes less. Six respondents were interviewed face to face, the ones living in the Gothenburg region. The other six respondents living in the Stockholm region were interviewed by telephone. All interviews were conducted in Swedish, as we wanted the respondents to speak as freely as possible. The interviews were recorded and thereafter translated to English in order to write the empirical findings. The questions were connected to our theoretical framework. By connecting the literature review to the empirical findings we were able to answer our research question. It was important to have written the introduction and literature chapter before performing the interviews in order to have knowledge within this subject and thereby be able to ask the appropriate questions (Qu & Dumay, 2011). When conducting the interviews we have asked the questions as neutral as possible to avoid bias. As we have performed semi-structured interviews we made an interview guide but we have not followed it entirely, respondents had the possibility to speak freely in order to capture perceptions and opinions (Bryman, 2011).

3.5.1 The interview guide

All questions in the interview guide was designed and asked with the research question in mind (Saunders et al., 2012). All questions had an open-end design to avoid abrupt yes or no answers (Saunders et al., 2012). The formulation of the questions should be broad so it does not limit the respondents in presenting and describing their reality (Bryman, 2011). The purpose with the questions is to get useful information from the respondents, therefore the questions need to invite the respondents, rather than limit them (Saunders et al., 2012).

We considered an unstructured interview, but we decided that some key questions were important to explore the opinions in the direction towards our research question. Therefore we conducted semi-structured interviews. To increase credibility, the respondents were given the questions in advance (Saunders et al., 2012). To increase the credibility we had two complementary questions that could be added on any question (Saunders et al., 2012). These two questions were "Please, tell me more?" and "What happened then?"

Based on our literature review we consider some topics to be relevant to enable us to answer the research question and contribute with new knowledge. The topics were directed towards both the buyer and the real-estate agents, while the questions was customized and adapted by the interviewer and directed towards either buyer or real-estate agent.

3.5.2 Document study

In our study we explore the relation between the information presented in annual reports and how the buyers of housing apartments use it. Therefore, we do not only interview the users of annual reports, but also investigate the content of annual reports themselves (Bryman, 2011).

Our method to interpret the information in the annual report is based on what our theoretical framework displays, namely that the annual report should work as a communication tool

between housing associations and users. We have studied how voluntary disclosures that literature suggests to be included in annual reports actually are included in practice. We have used the information from the annual reports as a complement to the interview responses, to be able to capture what information the annual reports contained.

3.5.3 Data processing

After the data collection was completed, the information was processed. The interviews were transcribed, and thereafter coded in order to reduce the data. The data reduction stage was essential to capture only the information relevant for the purpose of this thesis. During the coding part we selected, simplified and summarized the data collected through the interviews (Collis & Hussey, 2014). By performing this data reduction through decoding we were able to write the empirical findings by interpreting the information from the interviews (Bryman, 2011).

The interviews were held in Swedish, therefore was the transcription from the recorded interviews also made in Swedish. When writing the empirical findings chapter we translated the information relevant from the transcription into English. The transcription process was quite time-consuming since we had to listen to the recorded interviews many times in order to select the information relevant for our thesis. When writing the empirical findings chapter the data was restructured into categories. We followed the main cornerstones of the model of accounting communication presented in the theoretical framework chapter (Collis & Hussey, 2014). This was made in order to facilitate the data analysis since the comparison between the theoretical framework and the empirical findings becomes more evident.

During the writing of the empirical findings chapter we had the research question in mind. To be able to capture the relevant information from the interviews, the research question was the central theme and information not contributing to answering the research question was excluded. As mentioned previously we structured the text according to its content and not according to the respondents. This was made in order to capture the whole picture and to find the substance of the responses.

Finally, the information found in annual reports was categorized in a way that we summarized the collected secondary data into tables and under different headlines (Collis & Hussey, 2014). In order to structure the data we coded the data into categories in order to provide a link between the data collected and the information written in the theoretical framework. We chose the coding units as researcher with the theoretical framework in mind. The aim was to provide coding units that could be used to interpret and analyze the data. The data was transferred from the annual reports through the coding units to the empirical findings chapter. The tables provided a good summary and illustration of the information from the annual reports.

3.5.4 Data analysis

After the empirical results were formulated, we started analyzing results from the perspective of existing theories related to the studied phenomena. Miles & Huberman (1994) describe several features in the process of analyzing qualitative data that we have used as a foundation for our analysis. Consequently small generalizations and summaries of categories could be written in order to compare the empirical findings with literature. When conducting the data analysis we used the information from the interviews to explain and draw conclusions about how the respondents have experienced the information they received in the annual reports. When analyzing we tried to find comparisons between the answers from the respondents to be able to find patterns of their perceptions. This was compared to the patterns we found in the document analysis of the annual reports. The total empirical findings were thereafter compared to suggestions from the literature in the theoretical framework chapter. The analysis is entirely focused on answering the research question and to fulfill our purpose of writing this thesis.

3.6 Quality of the sources

We have tried to make this study as valid as possible by focusing on sources with high quality (Saunders et al., 2012). We have used two types of sources, primary and secondary. The primary sources are the respondents (Buyers and Real-estate agents). To decrease bias we have used snowball sampling and tried to be objective in our observations from the respondents. We have tried to select buyers, which have been as close in time as possible to their purchase to make the answers more reliable (Bryman, 2011). The secondary sources (annual reports) are connected to the respondents and are therefore of high quality since they provide an insight regarding what information the annual reports contained in practice when they were available for the respondents. In the table below we have summarized the main features of the buyer respondents to display the respondent's gender, age and educational background.

| Respondent | City | Gender | Age | Educational background |
|-------------------|-------------|---------------|------------|-------------------------------|
| B1 | Stockholm | Male | 33 | None |
| B2 | Gothenburg | Male | 23 | Bachelor in Business |
| B3 | Partille | Female | 25 | None |
| B4 | Gothenburg | Female | 28 | None |
| B5 | Sollentuna | Male | 28 | Bachelor in Business |
| B6 | Stockholm | Male | 31 | None |

3.6.1 Reliability

The important features in a qualitative study is to find relevant respondents, to be prepared to different "scenarios", have carefully developed questions, and to ensure that respondents answer and talk about the phenomenon during the study. In this study we as researchers are conducting qualitative interviews to understand people's opinions (Arksey & Knight, 1999). Qu & Dumay (2011) state that our selected form of conducting interviews, semi-structured,

will get reliability with a lot of planning and preparation of the questions. We as researchers needed both in advance, during and after the interviews sustain that the questions are asked properly and that the answers are interpreted objectively in order to facilitate the desired results (Qu & Dumay, 2011).

Bryman (2011) describes reliability as how great the chances are that a researcher will get the same answer as the previous researcher if a similar study is conducted again. Replication of a study is of higher importance in quantitative studies. In qualitative studies such as this thesis reliability is often interpreted in another way. According to Collis & Hussey (2014) a qualitative study emphasize on whether observations and interpretations can be explained and understood. In a qualitative study it is important to explain procedures and to establish interview protocols and other material such as annual reports studied that can increase the reliability of the findings.

Another important feature to consider increasing reliability in a qualitative study is to choose the right case (Collis & Hussey, 2014). The constellation of respondents and documents is important. In our case we interviewed real-estate agents that had been advisors for the same buyers we interviewed and we studied the same annual reports available for these respondents. The choice of respondents and annual reports studied was made in order to answer our research question in a reliable way.

3.6.2 Validity

Validity is defined as if the researchers observe, identify or measure what they intend to measure (Bryman, 2011). Therefore it was important to consider that our interview questions were in-line with the research question, since the collected information from the interview questions are intended to answer the research question.

In our study we conducted semi-structured interviews, which included both open and closed questions in order for the respondents to talk about their experiences in an unbiased way. Qualitative data is often of high validity if questions are asked to capture what the study is intended to measure (Collis & Hussey, 2014). In order for us to achieve a study of high validity the interpretation of data is important. The transcription of the interviews was important to reflect the answers of the respondents in an unbiased way; subsequently we tried to write the empirical findings chapter without including our subjective opinion. We used the same objective approach when we studied the annual reports. To summarize; to reach the highest possible validity in our study we have conducted an interpretation, which is as objective as possible. The interpretation is intended to capture the opinions of the respondents' answers as well as the content from the document study in an unbiased way.

Chapter 4 Empirical findings

In this section the empirical findings from interviews with buyers and real-estate agents, as well as the document analysis of housing associations' annual reports are presented. The respondents are divided into the two categories, buyers and real-estate agents. We have structured our empirical results by following the main cornerstones of the model of accounting communication, presented in Chapter 2, namely annual reports, users of annual reports and their economic decisions at the event of purchasing housing apartments. We have not emphasized the accountant in this structure, since the focus is on the annual report, the users and the economic event.

4.1 The perspective of buyers of housing apartments

We have conducted interviews with six individuals who have purchased housing apartments during the last couple of years. The respondents have purchased housing apartments in either the Stockholm region or the Gothenburg region. To protect the integrity of the respondents, the respondents will hereafter be named as B1, B2, B3, B4, B5 and B6.

4.1.1. Relevant information in annual reports for buyers

All respondents have in various ways used the annual report for guidance. Four of our respondents have looked and interpreted the information of the annual reports themselves. B6 on the other hand asked the real-estate agent for guidance. B1 looked at the annual report although very briefly.

Generally the respondents looked for signs of stability in the housing association. Stability was according to B6 referred to that the debt ratio was not too high and that the housing association had stable cash flows. B1, B4 and B5 stated that a profit in the income statement is important and a sign of a stable housing association. The profit was also important for B3, although this respondent emphasized that the most important indicator of stability was a low risk of increasing monthly fees. The balance sheet in general and the amount of long term debt/debt ratio in particular were sections of interest for the respondents and were seen as signs of a stable housing association. The most important parameter in the respondents' interpretation of the annual report was the potential risk of increasing monthly fees, which was mentioned by all respondents. B2 considered future maintenance and maintenance/investments already conducted to be relevant for a prediction of future changes in the monthly fees, other respondents as B3 argued that a low debt ratio was the best tool to evaluate future changes in the monthly fees.

Other information some respondents considered to be important in the annual report were key ratios. Among the respondents valuing key ratios, B2 and B4 mentioned solidity as the most important key ratio. B3 argued that liquidity, debt ratio and leverage were of highest importance in the purchase situation. Conversely two respondents B1 and B6 did not look at key ratios at all.

To determine how the respondent valued a maintenance plan, we asked the respondent if they would prefer the maintenance plan to be included in the annual report. Three of six respondents would highly prefer the maintenance plan to be included in the annual report. One of them, B4 states that planned maintenance is important since "then I could predict future increases in the monthly membership-fee". The other three did not consider the

maintenance plan important, as "I did not care" (B5) to "nice to have it there, but I do not look at it" (B1).

4.1.2. The relation between annual reports and the buyers

The respondents described generally that the annual reports gave them relevant information regarding the housing association's financial state of affairs. When the respondents felt they had received relevant information from the annual report regarding the housing associations economy, they also felt more confident about the housing association. As B5 states; "the information I found gave me a feeling of security" and B6 found that "relevant investments were made". There was a discussion in terms of stability and safety, "a positive profit in the income statement is a sign of stability for me " (B1).

Some respondents had the impression that the annual report was relatively understandable. For example B4 state that "Loans were easy to find", B3 states that the displayed information in the annual report is "simple even a layman like me can understand". B6 on the other hand has a different opinion he says that "For a professional annual reports are probably easy to understand, but for me and others it is harder".

Some respondents perceived the annual reports as understandable, but the majority did not believe that the annual reports were aimed for them as buyers. Instead the general opinion was that the information in the annual report aimed for other stakeholders. B2 argues "not the buyer, since there is a negative result in the income statement". Other responses were existing members of the housing association, banks, auditors and "everyone" (B4). The responses regarding the understandability of the annual reports and for whom the annual report is aimed for gave us a diversity of answers. The respondents were divided in their belief regarding the understandability of the annual reports and were unsure on whether the annual reports were aimed for them as buyers.

4.1.3. The relation between the annual report and the purchase situation

The respondents described that they all used the annual report to assess the housing association's financial state of affairs, in the purchasing situation, as B3 states: "I used the annual report to screen the housing association's economy". B2's reflection was similar, but B2 also found a business opportunity; "I used the information to assess the economy of the association, but I believe that the negative result in the income statement discouraged potential buyers". This respondent felt that information and understanding of the negative number gave a competitive advantage towards other buyers.

Even though all respondents used the annual report in some way, the discussions significantly varied in how the information from the annual reports had affected their purchase decision of a housing apartment. Four respondents described that the annual report had affected their purchase decision, as B5 states "I could see that the housing association financial state of affairs was good, so I went for it". B4, "the annual report displayed future maintenance and investments I felt confident". In contrast the remaining two respondents answered that the annual report did not affect their decision. B1 states, "I think the price of an apartment is more dependent on the location and surroundings, rather than the content of the annual report".

The buyers, which said the annual report, affected their purchase also made comparison with other annual reports of housing associations other than the one they purchased from. This can be seen in the opinion of B6, which states, "I've looked and compared, especially the solidity in several associations since my real-estate agent told me to do so". Another comparison is

made by B5, which has compared different housing associations assets with one and other. B5 states, "I have looked at equity compared to long term debts in several associations"

Contradictory was B1 who said that the annual report did not affect his purchase decision; neither did he conduct any comparisons.

Further there were discussions about what information the respondents wanted from the annual reports. Four of the respondents argued that information regarding maintenance plan, future investments and debt ratio was of particular interest; since this was information the respondents considered would determine future changes in the monthly membership-fees. The majority of the respondents also set a high value on the bottom-line result in the income statement. For instance B3 states "I value the result quite high, since a good result is strengthening my impression of a healthy housing association". Contradictory to this view is B2, which said; "I put a low value on the result, the operating profit is more interesting since it excludes the depreciation". B1 argued that information regarding the stability of the economy was of interest, however the respondent could not explain what "stability" was, he mentioned briefly that it concerned "stable profit in the income statement".

Since some economic information can be hard to interpret, we asked if the respondents had used other individuals for guidance. Two respondents had used other real-estate agents than the one responsible for the sale, "I wanted an objective, but professional opinion so I asked my own real-estate agent" (B6). Two other respondents had counseled with their mothers, while the two last respondents had trusted their own judgment, as B2 states "I did not ask anyone else, since the real-estate agent gave the same information as the annual report".

4.2 The perspective of real-estate agents

We have conducted interviews with six real-estate agents (agents), which have handled the corresponding sales of the apartments the buyers have purchased. The agents are representing six different real-estate agencies. To protect their integrity we have named them A1, A2, A3, A4, A5 and A6. The numbers of the agents are corresponding to the same number of the buyers, e.g. B1 have purchased housing apartment from A1 etc.

4.2.1 Relevant information in annual reports for buyers

The agents we have interviewed have all used the annual report in order to provide the buyer with information in the purchase situation of a housing apartment. In the annual report the agents hope the buyers can find information that concerns what they actually are buying, as A6 states "the buyer is purchasing the right to use the housing apartment, not the whole house meaning it is important to declare that the buyer will be affected by the housing association's economic situation".

The agents consider the annual report to be important. For example A6 states "it is mandatory to disclose the latest annual report from the housing association, according to the Estate Agents Act". A2 declares; "the annual report is vital", the respondent explains that it is mandatory to bring the annual report to the viewing of the housing apartment, and that the information is essential to present if the buyer asks for it. The response from A2 and A6 indicates that the annual report is important since it is mandatory to present the annual report in a purchasing situation. The actual information in the annual report is not emphasized as much as the fact that the presence of the annual report is required. Contradictory to the answers from A2 and A6 is the arguments from A1 who displays the importance of the annual report, by performing an oral presentation of the annual reports at the viewings. Further A4

states; "the annual report is central and is the best way of presenting the housing associations economy". Another response is A3, which states; "I only present the annual report if the customer asks for it". The answers indicates that the agents perceives the annual report to be important, but some agents refers the importance to the fact that the annual report is mandatory other to the fact that the information itself is important for the buyer.

The agents have different opinions of what is most relevant in an annual report for the buyer in a purchase situation. A1, A3 and A6 state that the balance sheet and especially solidity, debt ratio and leverage is important information. A3 declares "long term debt contra the assessed value, a low amount of long-term debt means low risk for the buyer to be affected". A5 has a different view he states "historical investments, maintenance and future investments/maintenance plans are the most important for the buyer". Furthermore A2 declares "the annual report displays important information for the buyer, like future costs". In this discussion some agents raised the question if other agents have the sufficient knowledge to interpret annual report themselves; A4 states "the general knowledge among the real-estate agent about the annual reports is low" and "our education do not include so much business" (A5). The fact that the answers from the agents differed displays that there is no unified view among the agents. This could depend on the fact that agents have limited knowledge within accounting since their education has a limited amount of courses in business and accounting.

The discussion with the agents declares that they present what the buyer wants to know. The most common question the agents get is "will there be any increase in the monthly fee". Other questions indirectly related to future increases in the monthly fee are common. Such as; questions about future maintenance/investments, the amount of long-term debt (solidity, debt ratio) and the "stability" of the economy often referred to as stable accounted results in the income statement.

Regarding key ratios and significant financial information the agents emphasized solidity, leverage, debt ratio, liquidity and cash flow analysis. The main argument among the respondents regarding debt ratio and solidity was that it is important to display how burdened with debt the housing association is since many buyers are asking about the long term debts. A2 and A3 referred to "loan per living space (leverage) is very interesting and makes it easy to compare with other associations". A1 has a clear picture "leverage contra maintenance/investments made gives the buyer the best tool for evaluating if the housing association needs to increase their debts in the future, which could affect future monthly fees". Two agents emphasize liquidity and A5 states "a good cash flow analysis is important to show buyers how money comes in and out".

The bottom-line result in the income statement is one feature where we got a diversity of answers from the agents. A1 argues; "the result is an indicator of a prosperous association and a negative result can affect monthly fees". Other respondents argued that the result is important but emphasized that depreciations could affect the result negatively. For example A3 answered "personally my job is to present the result not the underlying reason behind the result, however I argue that the result before depreciation could be interesting". The main argument was that a positive result is good and a sign of stability. However some agents argued that depreciation could affect the result and make it look more negative than it actually is. Investments and maintenance were seen as reasons that could affect the result and it was therefore important to explain the reason behind a negative result for the buyer as A2 states "It is hard to conclude that a positive result is good, investments/maintenance and depreciations can affect the result largely in one year". Only two respondents stated "the result is not

important, liquidity and solidity is of higher importance" (A6) and "the result has nothing to do with the financial stability of the housing association, other factors such as investments/maintenance made together with leverage is the key indicator of a good economy in an association" (A1).

One feature, which the majority of agents suggested to be included in every annual report and be more emphasized, is the maintenance plan. This is confirmed by A6's opinion; "The maintenance plan is disclosing potential raises of the monthly fee" (A6). Further A3 describes that it is risky not to look at the maintenance plan before making a purchase decision. A2 continues the argument "the greatest future expenses should be displayed in the maintenance plan". A5 argues, "Great expenses disclosed in a maintenance plan should warn the buyer about the risks of purchasing this object". Contradictory to these agents is A4's opinion, which states that the maintenance plan is not as important, "It is enough to ask the housing association if there are greater renovations or expenses coming, no need to look at a maintenance plan".

4.2.2 The relation between annual reports and the buyers

The opinions of the agents regarding which users the information in the annual report addresses varies. One interesting finding is that no agent answers that the information addresses the buyer, although A3 states "The annual report should be made for the buyer as well". The stakeholder groups the agents perceive the information is directed towards is the existing members and the board of the housing association. A5 declares "the information is addressing the members, a simpler version of the annual report should be made to better address the buyer", A6 continues "smaller housing associations have difficulties in making comprehensible annual reports for users". The main argument among the agents is that annual reports in its current form are not directed towards buyers instead they are directed towards members or professional users. A4 concludes "as it is today, the annual report is not directed towards the buyers and their needs".

4.2.3. The relation between the annual report and the purchase situation

Most agents responded that the annual report was used to assess the financial state of affairs of the housing association in order to facilitate the purchase decision for the buyer. For example A2 states "I studied the annual report to get a good picture of housing associations economy, further I asked the housing association itself to get the whole picture". The main opinion is that the annual report is used by the agents to provide the buyers with a sufficient picture of the housing association's financial state of affairs.

The agents are using the annual reports to provide the buyers with information regarding the financial state of affairs, although we found that the agents are split in their belief that comparing housing associations annual reports are good. As A1 states; "No I do not compare annual reports from different housing associations with one another, since I want the buyer to keep their focus on this object". Contradictory was A5's opinion, "I compare the housing associations every time with others, as I want to show the customers how this housing association has different leverage and other maintenance needs". The answers varied from "sometimes" (A4) to "when the buyer asks for a comparison" (A2).

To deepen our understanding on what role the annual report has for the buyer in the purchase situation, we asked the agent. The answers we got were diverse, the majority argued that the role should be greater than it is today. However, some agents thought that the role of the annual report was significant already; A5 states "The role is great, since it is displaying the

housing associations economy and how the monthly fee will change". Contradictory A2 states "The annual report has a small role, but it should be greater". This statement is aligned with A3 and A6 argumentations; A3 states "the annual report has a small role, since no one is focusing on it". Two agents argue that the focus on the annual report should be greater, especially since many housing associations went bankrupt in the early 1990s (A3 & A2).

There are seldom any questions asked to the agents regarding any specific about the housing associations' economy. A3 states "it is seldom questions regarding the economy, sometimes there are questions about the stability of the economy". The agents have not provided an explanation of what the buyers mean when they ask about "stability". According to the agents, buyers seldom ask specifically about the reasons behind future changes in the monthly fees, they are simply asking if there are any planned increases of the monthly fee. The agents have the perception that the buyers are in general well briefed about what is "good" to ask, although the agents believe that the buyers have difficulties to interpret the information in the annual report and are therefore more willing to ask. As A4 states "the buyers know that they should ask about any planned raise of the monthly fee, but very few know where to find that information in the annual report".

When the agents answer question from the buyers regarding the economy the responses differs. A1 states, "we cannot make any judgments we have to be objective and if they have any specific questions, we have to contact the board for more details". The objectivity is a feature emphasized by three of the agents. As A5 states "I try to detect facts and be as objective as possible", A2 have a different opinion "it is hard to objective, but everything depends on the situation, a bad housing association does not live long and increases in monthly fees are more common than people think, therefore more people should pay attention to the housing association's financial state of affairs". A4 have a similar argument "everything is a risk, but I try to minimize that risk by using the information I got".

4.3 The content of housing associations' annual report

In this section we present a document analysis on six annual reports, which are connected to the six buyers presented above. To protect the integrity of the buyers we have chosen to name the housing associations annual reports D1, D2, D3, D4, D5 and D6. Thus the number of the documents, D1 corresponds to the same number of the buyer, B1, and consequently the same number of the agents, A1.

In this document study we have chosen to focus on certain codes. The codes are connected to section 2.6 "Key ratios" in the theoretical framework. Literature and industry experts to be included in the annual report of housing associations suggest the key ratios. To extend the analysis of the annual reports beyond the key ratios we have chosen to focus our document study on, we present some information that is informative and useful for the buyer in the purchase situation. Under the heading "other key ratios" are other key ratios than those included in the tables presented. This information is connected to section 2.5" Problems with housing associations' annual reports".

| Code | Key ratio | Yes | No |
|------|--|-----|----|
| 1 | Solidity (Equity / Total assets) | ✓ | ✗ |
| 2 | Liquidity (Current assets / Current liabilities) | ✓ | ✗ |
| 3 | Leverage (Long term debt / Total living space) | ✓ | ✗ |
| 4 | Debt ratio (Long term debt / Equity) | ✓ | ✗ |
| 5 | Maintenance plan | ✓ | ✗ |
| 6 | Result (Bottom line in income statement) | ✓ | ✗ |
| 7 | Cash flow analysis | ✓ | ✗ |

Document 1 - Annual report 2014

| Codes | ✓ | ✗ |
|------------------------|---|---|
| 1 - Solidity | | ✗ |
| 2 - Liquidity | | ✗ |
| 3 - Leverage | | ✗ |
| 4 - Debt ratio | | ✗ |
| 5 - Maintenance plan | | ✗ |
| 6 - Result | ✓ | |
| 7 - Cash flow analysis | ✓ | |

Management report

The annual report starts with an introduction page where the special features of living in a housing association are presented as information for the user of the document. HSB Stockholm has been in charge of the economic administration. Further essential information presented in the management report is concerning the monthly fees, which have been raised during the year. Future maintenance is disclosed but only for the next year, no long-term plan for future maintenance/investments is presented. The board has together with HSB Stockholm renegotiated the long-term debt, which has decreased interest cost.

Other Key ratios

D1 discloses certain key ratios, other than our codes presented above. The key figures are presented for year 2011-2014. D1 presents the increase/decrease of the turnover, total assets, operating profit (before depreciation), bottom-line profit (after depreciation) and monthly fee (monthly fee*12) /living space.

Bottom-line result in the income statement

D1 disclose that K2 standards are implemented in the beginning of 2014, which have affected the result negatively. This can be explained by different depreciation rules. The depreciation period has decreased in time, from 200 years to 120 years. Consequently, a greater depreciation cost is therefore affecting the result negatively.

Special Features

D1 has voluntarily chosen to present a cash flow analysis. The cash flow analysis is clearly presented and displays the housing association's liquidity (a positive cash flow around 950 000 SEK, an increase with 700 000 since the last year). The cash flow analysis present clearly that depreciation is not affecting the cash flow of the housing association.

Document 2 - Annual report 2013

| Codes | ✓ | ✗ |
|------------------------|---|---|
| 1 - Solidity | | ✗ |
| 2 - Liquidity | | ✗ |
| 3 - Leverage | | ✗ |
| 4 - Debt ratio | | ✗ |
| 5 - Maintenance plan | | ✗ |
| 6 - Result | ✓ | |
| 7 - Cash flow analysis | | ✗ |

Management report

In the management report the housing association disclose that they are not following a maintenance plan. D2 disclosed that a maintenance plan would be made during 2014. Detailed information regarding the financial state of affairs is not presented in the management report. The presented information regarding the financial state of affairs is that the economic administration is outsourced to "Fastighetspartner", which is a consulting company.

Other Key ratios

No key ratios disclosed.

Bottom-line result in the income statement

The housing association is making a provision to their maintenance fund with 14 574 SEK, even though they are presenting a negative result. There are no disclosures regarding the negative result and overall in the annual report the voluntary disclosures are non-existent. The operating profit (before depreciation) is positive.

Special features

No special features are disclosed. Only mandatory information such as the management report, income statement, balance sheet, notes and auditor's report are displayed.

Document 3 - Annual report 2014

| Codes | ✓ | ✗ |
|------------------------|---|---|
| 1 - Solidity | ✓ | |
| 2 - Liquidity | ✓ | |
| 3 - Leverage | ✓ | |
| 4 - Debt ratio | | ✗ |
| 5 - Maintenance plan | | ✗ |
| 6 - Result | ✓ | |
| 7 - Cash flow analysis | | ✗ |

Management report

D3 is a member of Riksbyggen and the economic administration is therefore conducted by Riksbyggen which is presented in the management report. Information regarding the monthly fee is disclosed, an increase of 7 % is planned during 2015. D3 displays that their liquidity has decreased from 625 % to 451 % however no information regarding why the decrease has occurred is displayed. D3 presents that they have for the first time produced the annual report according to the K-regulation (K2). D3 further explain that this change of regulation have affected; depreciations, investments and maintenance which in turn might affect comparisons regarding key ratios and results over time.

Other Key ratios

D3 displays 16 different and specific key ratios related to the financial state of affairs, yearly between 2010 and 2014. Turnover, bottom-line result, results before depreciation and result before depreciation but before provision to the maintenance fund are presented. These key ratios are related to the income statement. Total assets, solidity, liquidity and leverage are examples of key ratios related to the balance sheet. Interest cost/living space, monthly fees/living space and operating costs/living space are examples of more industry specific key ratios disclosed by D3.

Bottom-line result in the income statement

A positive bottom-line result is disclosed. The result are significantly lower than the last year because of increasing interest costs and operating costs, however there is no explanation regarding the result disclosed in the annual report. In the management report D3 describes that a change of regulation to the K2 regulation might affect results and the comparison with previous years.

Special features

Beyond the mandatory information D3 discloses the key ratios mentioned above. They have an extensive word-list explaining important terms that make it easier for the user to understand the information in the annual report. D3 have pie charts displaying the cost allocation by comparing with last year. An explanation of what a maintenance plan actually is, has been disclosed. The maintenance plan itself is however not included in the annual report.

Document 4 - Annual report 2013

| Codes | ✓ | ✗ |
|------------------------|---|---|
| 1 - Solidity | | ✗ |
| 2 - Liquidity | | ✗ |
| 3 - Leverage | ✓ | |
| 4 - Debt ratio | | ✗ |
| 5 - Maintenance plan | ✓ | |
| 6 - Result | ✓ | |
| 7 - Cash flow analysis | | ✗ |

Management report

D4 is disclosing two diagrams displaying income and cost allocation. D4 discloses that their economic administration is outsourced to SBC [Sveriges Bostadsrätts Centrum]. The management report refers to a maintenance plan 2013-2042; the entire maintenance plan is not included in the annual report. However, planned maintenance for the next following years is presented and information regarding recent maintenance investments are disclosed.

Other Key ratios

D4 disclose information about certain key ratios, other than our codes presented above. The key figures are presented for year 2010-2013. D4 present the annual fee (monthly fee*12) / living space, leverage (Long term debt / living space) and cost of capital / living space.

Bottom-line result in the income statement

D4 has a positive bottom-line result (after depreciation). D1 discloses that they will change to the K-regulation next year. This change might affect depreciation policies, which could affect future bottom-line results and key ratios according to D4's disclosures.

Special features

D4 has extensive disclosure displaying the housing association's long-term debts, where the interest rates and the size of the loans are displayed. Overall the disclosures are extensive where different posts in the balance sheet and income statement are displayed in detail.

Lastly in the annual report D4 has a voluntarily section where they disclose budget versus the result which makes it clear for the users how reality and budget differs according to different costs, assets, and debts.

Document 5 - Annual report 2014

| Codes | ✓ | ✗ |
|------------------------|---|---|
| 1 - Solidity | ✓ | |
| 2 - Liquidity | | ✗ |
| 3 - Leverage | | ✗ |
| 4 - Debt ratio | | ✗ |
| 5 - Maintenance plan | ✓ | |
| 6 - Result | ✓ | |
| 7 - Cash flow analysis | | ✗ |

Management report

The management report refers to a ten year maintenance plan. Information regarding the coming two years of maintenance is disclosed in the management report. Information regarding the monthly fees (monthly fee * 12) is disclosed, the fees have been raised by five percent in 2014. The economic administration is outsourced to "Storholmen Förvaltning AB".

Other Key ratios

D5 presents the development of three key ratios between the years 2011-2014. They key ratios are turnover, result (bottom line in the income statement) and solidity.

Bottom-line result in the income statement

The result is positive, and it has increased with 2.8 million since the last year. D5 has changed from a 1.7 million deficit 2013 to a 1.1 million profit 2014. There are no explanations in the notes concerning this change, without reading the notes about specific costs.

Special features

No special features are disclosed. Only mandatory information such as management report, income statement, balance sheet, notes and auditor's report are displayed.

Document 6 - Annual report 2014

| Codes | ✓ | ✗ |
|------------------------|---|---|
| 1 - Solidity | ✓ | |
| 2 - Liquidity | | ✗ |
| 3 - Leverage | | ✗ |
| 4 - Debt ratio | | ✗ |
| 5 - Maintenance plan | | ✗ |
| 6 - Result | ✓ | |
| 7 - Cash flow analysis | | ✗ |

Management report

The housing association displays that they estimate a 10% increase of the monthly fees (monthly fee * 12). This, according to the chairman of the board is because of "expensive loans (35 million to the interest rate of 6%)" and the change from progressive to linear depreciation, according to K2 standards. According to the board the maintenance plan is affected by the new depreciation policies, the chairman state "future maintenance will be affected by the new depreciation policies". The economic administration is outsourced to "Delagott AB".

Other Key ratios

The management report presents the development of three key ratios between the years 2011-2014. The key ratios are turnover, result (bottom line in the income statement) and solidity.

Bottom-line result in the income statement

D6 bottom-line result is negative. No explanations and disclosures regarding this negative result are presented without reading all the notes regarding different incomes and costs.

Special features

No special features except from the extensive description regarding the future depreciation policies, maintenance and increases in the monthly fees disclosed by the chairman in the management report.

Chapter 5 Analysis

In our analysis we will discuss how well the annual report achieves its role as a communicating document in a situation of a housing apartment purchase. The analysis is presented with a structure that follows the literature, which states that the information provided by the annual reports should be relevant (5.1), understandable (5.2) and comparable (5.3).

5.1 Relevance

Researchers who advocate for a communication approach to accounting (Bedford and Baladouni, 1962; Jack et al., 2013; Sabelfeld 2016) emphasizes that information included in annual reports should be relevant for the economic event. In this section we focus on the relevance of annual reports for the buyers in a purchasing situation of a housing apartment. Both buyers and agents in our study have stated that the annual reports are relevant as a tool for making a purchase decision. Even though some agents believed that the relevance of the annual report should be more extensive than it is today.

The buyers and the agents have diverse opinions of what they perceive as relevant information. Most buyers argue that signs of stability in the housing association economy are relevant. However, the buyers in turn, defined stability differently. Some buyers referred to stability as a stable result in the income statement, while other buyers defined stability as either; a low debt ratio or disclosures of future maintenance. Generally the buyer's defined a low risk of increasing monthly fees as a sign of stability. Lunden (2014) stated that key ratios related to the balance sheet and the indebtedness as well as information regarding the cash flows is of highest relevance. In the FAR (2015) report large organizations as HSB and Riksbyggen emphasized the occurrence of voluntary key ratios as leverage together with a cash flow analysis and a draft from the maintenance plan in the annual report. Taylor, (2013) argued that a large amount of voluntary disclosures should increase relevance of annual reports. The agents in our study have to a larger extent than the buyers expressed that key ratios related to the balance sheet and indebtedness were of high relevance. Leverage, solidity and debt ratio are examples of key ratios related to the indebtedness defined by the agents as relevant information. Some agents have in-line with the literature-valued information about a maintenance plan and a cash flow analysis. Generally the agents' opinions regarding relevant information are more similar to the suggestions of the literature than the buyers' opinions. This could depend on the fact that the agents are more experienced of valuating housing associations and that they are more professional users of housing association's annual reports than buyers who often are laymen.

In the annual reports studied we have discovered a varying amount of voluntary disclosures and relevant key ratios. For example only one of the annual reports has presented a cash flow analysis, which is suggested by literature to be value-relevant. Some annual report contains several key ratios including leverage, debt ratio, and solidity as well as industry specific key ratios such as monthly fees / living space, while other annual reports do not contain a single key ratio. In the management report the variety of information differs considerably among different housing association's annual reports. Some have extensive voluntary disclosures regarding relevant information such as monthly fees, long term debts, maintenance, liquidity, and cost allocation, while other management reports only contain mandatory information which do not reveal any relevant information for the buyers.

A voluntary disclosure that should increase the relevance of annual reports according to literature is the maintenance plan. HSB (2015) and FAR (2014a) suggest that important parts of the maintenance plan should be included in the annual report. Information regarding future maintenance for a ten year period is an example of how the maintenance plan could be incorporated in the annual report. According to some agents the maintenance plan is important, since it discloses information regarding future maintenance that could affect future monthly fees. About half of the buyers perceived the maintenance plan as important, and wanted it to be included in the annual report. The other buyers did not value the occurrence of the maintenance plan. The knowledge regarding the maintenance plan varied and the agents have more extensive answers regarding the importance of the maintenance plan than the buyers, once again this could depend on the fact that agents are more experienced in valuing the financial state of affairs of a housing association, than buyers.

One could argue that the diversity of answers from the buyers regarding relevant information could depend on what annual report they have analyzed. To the best of our knowledge, our perception is that we perceive more extensive answers from the buyers which had more extensive annual reports to read. The diversity of voluntary disclosures in housing association's annual reports is one possible explanation of why some buyers find the annual report relevant less relevant than other buyers. Lunden (2014) and FAR (2015) have argued for new accounting regulations customized for housing associations to better display their financial state of affairs for the users should be introduced. This could be connected to the standpoint of Bedford & Baladouni (1962) who argues that accounting information needs to be relevant for the particular user.

One could argue that the diversity of opinions among the respondents in our study regarding the relevance of different information in the annual reports is evidence that the respondents, especially the buyers, are unaware of what information that is relevant in the annual report. The buyers who are often laymen in the field of accounting and inexperienced in reading housing association's annual reports are to a large extent dependent on voluntary disclosures and explanations of information in the annual report in order to find the relevant information. Since the amount of voluntary disclosures varies in the annual reports, the buyers are to a large extent dependent on what annual report they are reading. Our finding is therefore that the information in housing associations' annual reports in its current form does not provide relevant information for the buyer. One example of the lack of knowledge among the buyers regarding relevant information is that many buyers valued the result from the income statement highly. This could be explained by the lack of value relevant information such as key ratios, cash flow analysis and information regarding the maintenance plan in many of the annual reports in this study. Another explanation could be that buyers are unaware of the lack of relevance regarding the result from the income statement. Therefore, an important issue that has to be addressed is the need of explanations and disclosures regarding the special features of a housing association and what information that is relevant for users. In the annual report a section containing this kind of explanations could be valuable for users in order to understand what information that is relevant, such a section have also been emphasized by (FAR, 2015) together with HSB and Riksbyggen.

A majority of the buyers state that the annual reports have affected their purchase decision. However, some buyers have different opinions and argue that the annual reports are irrelevant for the purchase decision. One reason of why the annual report is considered to be irrelevant according to the buyers is that the information in the annual report is too complex. Kwolek (1973) argues that users find it difficult to observe relevant information due to the high

complexity of annual reports. Lang & Lundholm (1996), state that more disclosed voluntary disclosures can decrease complexity and increase relevance. The opinion of Lang & Lundholm is emphasized by industry specialist such as Borevision (2014), Borättsupplysingen (2012) and Boverket (2015) which state that an increased amount of voluntary disclosures should increase the relevance of housing associations' annual reports. The majority of the agents in our study strengthen this argumentation by stating that housing associations' annual reports provides an insufficient amount of relevant disclosures in a purchase situation for the buyers. Our document study further revealed that a lot of value relevant voluntary disclosures and key ratios were not included in the housing associations' annual reports. This lack of voluntary disclosures in the annual reports could be interpreted as a sign of high complexity and low relevance (Lang & Lundholm, 1996; Kwolek, 1973).

5.2 Understandability

To increase the understandability of accounting information Lee (1982) argues that the annual report should not only be aimed for a particular group of users. This argument is backed up by the majority of the buyers in our study perceiving that the annual reports are not made for them. This argument is also aligned with the perception of the agents who argues that the annual reports mainly are made for the members in the associations. However, one interesting observation is that no agent in this study believes that the annual reports are directed towards the buyers, even though some agents argue that annual report should be more comprehensible for the buyers. On the other hand Bedford & Baladouni (1962) suggests that accounting information needs to be understandable for a particular group of users. The majority of the buyers in our study gave the impression that they had the ability to understand the annual reports. Interestingly however are that some buyers argued that the housing associations' annual reports were directed towards professional users rather than non-professional ones (laymen). Contradictory to the perception of some buyers who believed that they understood the annual reports are the answers from the buyers regarding the understandability of annual reports. The answers indicated that the buyers in many cases did not understand the information in the annual report even though they believed they had the ability to understand. In this section we will explain why and in what ways the buyers did not understand the annual report.

Complexity in annual reports have been debated over the years, Kwolek (1973) argues that the annual reports is a document that is too difficult for most users to understand. The respondents, both agents and buyers illustrated this complexity by providing a variety of answers regarding the information in the annual reports. An example is the discussions around the importance of the result in the income statement. Svernlöv & Stattin (2014) and Lunden (2014) argue that the result in the income statement is an insufficient measure of the housing associations' financial state of affairs. The answers from mainly buyers, but also some agents indicate that respondents perceive the result as an important measure.

From the buyers' answers we can see that they perceive a positive result in the income statement as a sufficient measure of the financial state of affairs. A negative result is making buyers and some agents uncertain about how they should interpret the result. However, Svernlöv & Stattin (2014), FAR online (2014b) and Lundin (2014) describes that there is a variety of factors that can affect the result. For example changes in depreciation policies could affect the result. Since depreciation have no effect on the cash flow a change of depreciation policies would affect the result in the income statement but have no effect on the financial state of affairs of the housing association. The complexity regarding the result is defined by Svernlöv & Stattin (2014) who argue that the reasons to why deficits occur in the income

statement vary and it is often difficult for buyers to understand why a certain housing association has a deficit in their books while another has a profit. Some agents argue that a negative result is unimportant, but for most respondents in our study a negative result is an indicator of an unstable housing association. One could argue that this perception is natural since most people have learned that deficits are bad. The annual reports in our study have displayed a variety of negative and positive results; the remarkable feature is that a limited amount of explanations has been disclosed in the annual reports regarding the underlying reason behind the results. This lack of disclosures regarding the result makes it difficult for laymen to understand the factors that affected the result. Another argument of why the result is seen by the respondents as an indicator of financial stability could be that it is mandatory to disclose the result, and consequently all annual reports in this study have a disclosed result.

Callert (2014) argues that housing associations should not be obliged to follow the same accounting regulations as profit seeking organizations. This since the current accounting regulation is not made to display the current financial state of affairs of the housing association in an understandable way. Aligned with Callert's argumentation is the opinion of some buyers and agents in this study who argue that the current annual reports neither are aimed for buyers nor understandable for laymen. Hooks et al. (2002) suggest that there is a demand to make annual reports that are more understandable for all users. Parker's (1982) solution to this problem in understanding the annual reports is to simplify the disclosure of information.

Applied to a housing association setting, Lunden (2014) suggests that the annual reports' mandatory information should be complemented by more voluntary disclosures. Key ratios are one example of voluntary disclosures that could increase the understandability of housing associations' annual reports (Lunden, 2014; HSB, 2015; Borevision, 2014; Borättsupplysningen, 2012). Some agents have highlighted leverage, which is a key ratio also emphasized by Lunden (2014) and HSB (2014). The agents argue that leverage displays the housing indebtedness per square meter in an understandable manner. Some agents emphasized that looking at leverage together with evaluating the maintenance plan is a sufficient tool of measuring the financial state of affairs of the housing association. Other key ratios such as solidity and debt ratio are also emphasized by the agents since these key ratios are seen as indicators of how indebted the housing associations are. The agents further argues that a cash flow analysis should be included to disclose if they housing association has a positive or negative cash flow. One could argue that the agents had a relatively clear opinion on what key ratios that should be included in the annual report to increase the understandability of the information.

The buyers generally had lower knowledge regarding key ratios than agents, although some buyers discussed key ratios such as solidity, liquidity, leverage and debt ratio. These buyers saw these key ratios as understandable and sufficient information since they displayed information regarding the indebtedness of the housing association and how it could affect future monthly fees. Some buyers did not look at key ratios and overall the feeling was that key ratios were seen as less important than the result in the income statement. The reason why the buyers did not emphasize key ratios as much as it was by the agents could be that the buyers often are laymen and have a lower experience of reading annual reports than agents.

Some annual reports in our document study have in-line with the suggestion of the literature disclosed several key ratios that both the buyers and the agents have stated to be important for the buyer to be able to understand the financial state of affairs of the housing association.

While some annual reports have few disclosed key ratios, other have none. The annual report, which disclosed most key ratios in our study, presented 16 key ratios. Riksbyggen handles this housing association's economic administration. In our study the annual reports of housing associations that are members of larger organizations (Riksbyggen or HSB) are disclosing more key ratios. The buyers of these housing associations are more thoroughly describing what key ratios they have examined. These annual reports appear to be easier to understand for buyers. Overall there is a major variety in the amount of key ratios; some annual reports are not displaying any information except the mandatory information such as income statement, balance sheet and notes. The variety of the amount of key ratios, disclosures regarding maintenance plan and other information could explain why certain buyers have valued key ratios highly while others have not emphasized key ratios. Those buyers favoring key ratios also seem to be exposed to them.

Existing literature and professional experts within the housing association industry argue that key ratios and information regarding the maintenance plan should be included in the annual report to increase the understandability of the reports for buyers. One finding in our study is that the amount of voluntary disclosures related to maintenance plan, key ratios and other relevant information tends to vary between housing associations of different sizes. According to our sample the amount of voluntary disclosures also tend to depend on whether the housing associations are members of large organizations as Riksbyggen and HSB or if they are independent associations.

5.3 Comparability

When purchasing a housing apartment, FAR (2015) suggests that it is important to compare the financial state of affairs between different housing associations. However the majority of the buyers in our study state; that they have not compared the annual report with others housing association's annual reports. To make a comparison the buyer need to have relevant and understandable information to compare. As mentioned before, several buyers and two agents stated that the result was an accessible indicator of the financial state of affairs. Consequently, to make a valid comparison by using the result, the buyers need to know what is included in the result. In our study only two housing associations disclosed a description concerning the underlying circumstances behind the result. The other housing associations did not disclosing any information regarding the result. Two housing associations had negative result without presenting any comments on why the result was negative. One could argue that it is difficult for buyers to compare the result between housing associations that have deficit with the housing associations that have a profit. The comparison regarding the result becomes even more complex when considering the fact that no disclosures regarding the reason behind the result are presented in many housing associations. Buyers in this study have provided evidence that they are unaware of the fact that a negative result not necessarily indicates that the financial state of affairs is weak. Without an explanation of the result in the annual report, a comparison of the result between different housing associations becomes difficult and uninteresting for buyers who are often laymen in the field of accounting.

To enable comparisons, the buyers need to find relevant and understandable information to compare from the annual reports. This information according to literature and the agents are key ratios. A finding from our document analysis is that voluntary disclosures in general and especially key ratios are more common in annual reports produced by larger housing associations than in the smaller. The two annual reports produced by HSB and Riksbyggen (Borattupplysning, 2016), had the largest amount of key ratios disclosed. The annual report produced by the third largest housing association had many key ratios, although not as many

key ratios as the two largest. Smaller economic administration companies made the other three annual reports and the housing associations themselves were smaller counted as the number of members, and consequently had less disclosed key ratios. Two of the annual reports only disclosed the turnover, the result (bottom line in the income statement) and solidity while the last annual report had no key ratios at all. An interesting feature from the housing associations is that only one housing association had disclosed a cash flow analysis, the one made by HSB. Borättsupplysningen and Lunden (2014) are emphasizing that a cash flow analysis should be included, since it better displays how stable cash flow and liquidity the housing associations have. The documents studied in this report have provided evidence that some housing associations contain several key ratios such as leverage, debt ratio, solidity, liquidity, cash flow analysis, disclosures regarding the maintenance plan together with other relevant and comparable information while annual reports of other housing associations only present mandatory information. Since the amount of voluntary disclosures varies extensively between different housing associations one could argue that the comparability is low. Industry specialists (Lunden, 2014; HSB, 2015; Borevision, 2014; Borättsupplysningen, 2012) and agents in this study emphasized that leverage and debt ratio together with disclosures regarding the maintenance plan is sufficient and relevant information to compare between different housing associations. Since disclosures regarding this information vary considerably between different housing associations it becomes difficult for buyers to compare this kind of information. Many industry experts to enable comparisons emphasize the indebtedness together with a maintenance plan and a stable cash flow; therefore it is remarkable that disclosures regarding these features do not exist in most of the annual reports in our study. An explanation of why the respondents did not compare financial information could be fact that the annual reports lack comparable information.

Chapter 6 Conclusion

This study was conducted to answer the research question; “*How well does the annual reports achieve its role as a communicative document in a purchase situation of a housing apartment?*” In this section we provide a concluding discussion regarding the research question and the purpose as well as providing suggestions for future research.

6.1 Conclusion

Our exploratory case study found that the annual reports in their current form do not contain relevant, understandable and comparable information for buyers, which often are non-professional users of accounting information. The answer of this study’s research question is that the housing association’s annual report in its current form does not achieve its role as a communicating document.

Theoretical implications

This study contributes to existing literature regarding annual reports as communicating documents for non-professional users of accounting information. In a Swedish context this study contributes to the debate regarding the relevance of housing associations’ annual reports for buyers of housing apartments. This study contributes to the literature by adding a case study about buyers’ and agents’ opinions and the content of housing association’s annual report, and thereby adding another dimension to the debate regarding housing association’s annual reports.

This study’s theoretical implications are that voluntary disclosures that are made with the non-professional audience in mind increase the relevance, understandability and comparability of annual reports as communicative documents. Disclosures containing explanations, key ratios and other relevant information reduce complexity when presented in an educational and visual manner. The findings in this study indicates that buyers in many cases have difficulties to understand and find relevant information in the annual report which is in-line with the opinion of industry experts who suggest that a new accounting regulation customized for housing associations should be implemented. Consequently, a new accounting regulation including our suggestions presented above could contribute to the efficiency of capital allocation in the Swedish housing apartment market by providing annual reports that better reflect the housing associations financial state of affairs.

Practical implications

To make the annual report more *relevant* for the buyers the annual reports need to be more aligned with what information the buyers, as laymen require. The buyers need to obtain more relevant information from the housing association's annual report than they do currently. To increase the relevance of the annual report the findings from our study reveals that current voluntary disclosures regarding relevant information such as key ratios, maintenance plan and explanations regarding the special features of housing associations should be mandatory. To increase the *understandability* the annual reports should be explicitly directed towards the main users which are the buyers but also existing members. These groups of users are laymen when it comes to accounting information and therefore should the information be more educational and visual than annual reports are in their current form. To enable a *comparison* of housing associations financial state of affairs the annual report need to contain more similarities and be standardized. Comparisons between different housing associations’ financial state of affairs becomes difficult since some housing associations’ annual reports

contain comparable voluntary disclosure while other only contain mandatory information, which does not provide a sufficient basis for comparison.

Finally; to increase relevance, understandability and comparability the findings from our study indicate that housing associations' annual reports should contain information regarding relevant key ratios, maintenance plan and explanations regarding accounting choices and other relevant information in an educational and visual manner. In other words many of the current voluntary disclosures should be mandatory in order to better reflect the special features of the housing association and to better communicate information about the financial state of affairs for the buyers in a purchasing situation.

6.2 Suggestions for future research

We suggest that a future study could focus more on the role of the annual report as a communicative document for the real-estate agents. One could study how the real-estate agent present and use the annual report before, during and after a purchasing situation for a housing apartment.

One could make a follow up study on our practical implications, by only looking at how key ratios are affecting the buyers' assessment of the financial state of affairs for the housing association.

Finally, a quantitative study could be applied to reach a more extensive amount of respondents. A larger amount of respondents could increase the possibilities to generalize and consequently to give a more reliable guidance to producers of annual reports of housing associations.

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