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Implications of Accounting Standard Changes for Financial Reports: An Exploratory Study of the Transition to IFRS 16

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Authors
Victoria Quach and Lisa Tu

Supervisor
Mikael Cäker

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Victoria Quach and Lisa Tu

Abstract

Lease accounting has for a long time been a highly controversial topic due to the way operating leases are treated in the financial reporting. IFRS 16 is a new accounting standard for leases that aims to increase transparency by requiring the majority of all leases to be recognized on the balance sheet. However, within research, there is a lack of knowledge regarding how new financial reporting requirements, such as IFRS 16, might influence disclosure quality during the transition period. Hence, we attempt to fill in this gap by investigating the following research question, "How is the transition to IFRS 16, as disclosed in financial reports of companies in the consumer industry, influencing the preconditions for financial statement analysis?" In total, 17 companies are studied by analysing their financial reports. In particular, we look at how the effects of IFRS 16 are disclosed and how the disclosure varies between companies. To conclude, it was found that the preconditions for conducting financial statement analysis at the transition to IFRS 16 could be distorted by several factors. For instance, we noted that there were variations in the scope of disclosure about the effect of IFRS 16 on financial metrics, targets and internal initiatives. This reduces the comparability and transparency in the short run. Hence, we encourage stakeholders and standard setters to pay attention to the accounting quality of the reports during implementations of new accounting standards.

Key words: *IFRS 16, leasing, operating leases, financial statement analysis, accounting standard, accounting quality, disclosure*

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List of definitions

The following definitions are applied in this paper if nothing else is specified.

APM = Alternative Performance Measures

Debt-to-equity ratio (D/E) = Total liabilities/shareholder equity

EBIT = Earnings Before Interest and Taxes

EBIT margin = Earnings before interest and taxes/total revenue

EBITA = Earnings Before Interest, Taxes and Amortisation

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortisation

EBITDAR = Earnings Before Interest, Taxes, Depreciation, Amortisation and Restructuring or Rent costs

Equity ratio = Shareholder equity/total assets

IAS = International Accounting Standards

IASB = International Accounting Standards Board

IFRS = International Financial Reporting Standards

Net debt = Total liabilities - cash and cash equivalents

Return on assets (ROA) = Net income/total assets

Return on capital employed (ROCE) = Earnings before interest and taxes/(total assets - current liabilities)

1. Introduction

Leasing is a practice that has been used by businesses for many centuries and it is widely applied since it can serve as a convenient way for funding assets (Morales-Díaz & Zamora-Ramírez, 2018). The use of operating leases has increased substantially over the past decades (Cornaggia, Franzen & Simin, 2013) and companies can now lease essentially all types of assets, including laptops, machinery and real estate (Morales-Díaz & Zamora-Ramírez, 2018). However, the historical treatment of operating leases in the accounting has received much criticism from academics, practitioners and users of financial reports because it allowed companies to take advantage of a highly controversial accounting practice, known as off-balance sheet financing (Morales-Díaz & Zamora-Ramírez, 2018). Recently, the International Accounting Standards Board (IASB) issued a new accounting standard called IFRS 16 *Leases*. This standard came into effect in 1 January 2019 and can be considered as a project made in response to a perceived lack of transparency about firms' lease obligations (IFRS Foundation, 2016a). The old accounting standard for leases, IAS 17 *Leases*, distinguished between finance leases and operating leases, but only finance leases had to be recognised as assets and liabilities on the balance sheet (Magli, Nobolo & Ogliari, 2018). Consequently, before the implementation of IFRS 16, a substantial amount of lease obligations did not appear on the financial statements. The US Securities and Exchange Commission (2005) estimated that there was a worth of nearly 1.25 trillion dollars off-balance sheet lease obligations among US firms. The lack of information about companies' leases resulted in that it could be difficult to make proper cross company analysis without adjusting for leases, as numbers on the financial statements could differ substantially depending on whether assets are leased or bought (IFRS Foundation, 2016a). Several authors (e.g., Elam, 1975; Wilkins & Zimmer, 1983; Breton & Taffler, 1995) suggested that off-balance sheet lease obligations might have a distorting effect on fundamental analysis. In order to facilitate valuation, IFRS 16 aims to ensure that all material information about leases is disclosed in the financial statements, which is done by having companies capitalising their leases. Both lessors and lessees need to account for lease contracts in the disclosures. However, since IFRS 16 essentially continues with the lessor accounting requirements found in the previous lease accounting standard, IAS 17, the most notable changes will be for lessees (IFRS Foundation, 2019). The focus in this report will thus be on the lessee's accounting and how their financial statements are affected.

The new leasing standard causes significant changes in the accounting and is expected to have considerable economic consequences (Pardo & Giner, 2018). In the course of the period that IFRS 16 is implemented, many financial metrics will be altered. In the disclosure, firms have to decide whether they want to present the effect on the metrics, which could be done by recalculating the numbers. In this paper, recalculations and restatements will be used to refer to calculations that are based on a standard other than the valid standard the year the financial numbers represent. For 2019 numbers, recalculations would then refer to metrics *without* IFRS 16 effect (recalculated to be in accordance with IAS 17). While for years prior to IFRS 16 implementation, i.e., 2018 and backwards, recalculations would mean calculating numbers *with* IFRS 16 effect. Exploring how information about the effects of IFRS 16 is presented in

financial reports is highly relevant in order to understand the implications for accounting quality and the preconditions for making financial statement analysis. Because this year is the first time IFRS 16 is applied, it is a good opportunity to examine how the financial position and performance of lease intensive firms are affected by the accounting changes and how these changes are disclosed at the transition.

1.1 Background

A large amount of shares are traded on a daily basis at the stock markets, and for the people who make these transactions it is of utmost importance to know what the fair price is (Penman, 2013). Since buying stocks means investing in the business of the firm, it is necessary for investors to have a good understanding of how the business creates value and generates returns. To enable valuation of firms, the business must be translated into numbers, and this is done by financial statements as they translate the economics of firms into accounting numbers. In order to understand the story behind the figures and make informed decisions, analysing financial statements is therefore necessary (Penman, 2013; Revsine, Soffer, Johnson, Collis & Mittelstaedt, 2017). When assessing how much the business is worth, it is only the activities that actually create value that is relevant (Penman, 2013). Increases or decreases in performance due to accounting standard effects do not create value, and those effects should not be paid for. Therefore, in order to make correct company valuation, it is important to understand which activities are value generating and which are not.

According to the conceptual framework by IASB, the ultimate purpose of financial reporting is to provide useful information to investors and creditors for decision-making (IFRS Foundation, 2018). While investors use the information disclosed in financial statements to make evaluation of firms and decide whether to invest, creditors use this information to decide whether to provide capital (Penman, 2013). In addition to investors and creditors, there are many other users of financial reports, including governments, regulators, employees, senior managers and courts (Penman, 2013). They all need to understand financial statements in order to set policies, control business activity, negotiate wage, evaluate the performance of individuals and make assessments of damages in litigations. To aid them in those matters, it is essential for each user to be able to understand the deficiencies of the financial statements, what has been revealed and what has not. It is thus of value to increase the knowledge about how accounting standard changes might affect the quality of financial reports.

1.2 Problem discussion

Financial accounting standards need to constantly change and adapt to different settings in order to provide useful information for readers of financial reports (Runesson, 2015). Although the change from IAS 17 to IFRS 16 aims to improve accounting quality and facilitate analysis and valuation of companies, factors such as comparability might be affected negatively during the transition period if financial numbers are not recalculated. Firms have various choices to make when applying IFRS 16 in their financial reports and considerations

need to be made regarding what information to disclose. In addition to mandatory disclosures, firms usually include loads of unregulated voluntary information in their financial reports and substantial variations exist in how detailed reports are (Revsine et al., 2017). Some prefer to disclose extensive information, while others only publish the most essential. A transition to a new accounting standard could require companies to disclose more information than usual, as it becomes important to separate between effects from operations and effects from changes in reporting requirements. Since adopting a new accounting standard often results in that financial measures are affected, analysis of financial reports could become more challenging. If it is not clear how companies have calculated their numbers, and what accounting effects there have been, it will be more difficult to evaluate performance and financial position. Depending on how information is disclosed, the basis for investors to do correct estimations varies. How companies manage disclosure about IFRS 16 could thus be expected to influence the basis for performing adequate financial statement analysis. In order to understand how the usefulness of financial reports is affected, we need to explore how information is disclosed in the financial reports.

There are substantial amount of prior research investigating how different accounting standards are expected to affect accounting quality in the long run, however, there is considerably less knowledge regarding how accounting standards might affect the quality at the transition. Hail, Leuz and Wysocki (2010) have looked into this matter to an extent as they noted that when adopting IFRS, costs related to the transition occurs immediately and are short-term while benefits in terms of comparability is obtained over a much longer period. Other previous papers that have investigated accounting changes have mostly focused on transition in accounting regimes, i.e. from local GAAP to IFRS (e.g., Sahut, Boulerne & Teulon, 2011; Tan, Wang & Welker, 2011), rather than a specific accounting standard change. Although there are many similarities between transition from national GAAP to IFRS, and transition from a standard to another within IFRS, there are several differences as well. For instance, first-time implementation of IFRS requires restatement of numbers for at least one comparable year (Haller, Ernstberger & Froschhammer, 2009), whereas for the transition to IFRS 16, recalculations of comparable numbers are not mandatory. Although these papers regarding accounting regime transition provide useful insights, the differences lead to that findings regarding accounting regime changes might not be applicable on changes within a standard. Thus, more knowledge regarding these types of transitions is needed. Moreover, much of the prior literature studies earnings quality in order to determine accounting quality (e.g., Houqe, van Zijl, Dunstan, & Karim, 2012; Liu & Sun, 2015). In contrast, our paper intends to have more focus on the disclosure choices firms make and the restatements of information. Similar to Verriest, Gaeremynck and Thornton (2013), we look at disclosure quality during transition and investigate how much information is provided in financial reports, but we focus on a specific standard change rather than first-time IFRS adoption. We believe that it is important to highlight and gain more knowledge about how new accounting standards within IFRS are managed in financial reports, as IASB establish new standards and amendments on a frequent basis. Accounting standards are continuously updated and understanding of how it affects disclosure and accounting quality is needed.

1.3 Purpose of the paper

The purpose of the study is an exploratory one. By looking at how IFRS 16 has affected the financial position and performance of firms in the consumer industry, we aim to improve the understanding of how transitions to new accounting standards are managed. Moreover, since IFRS 16 is a relatively new accounting standard, we also wish to contribute with suggestions on future research that can benefit both academics and practitioners. When exploring how the new lease accounting is implemented, we are particularly interested in how much and what is disclosed. Companies within the consumer industry are of particular interest when considering IFRS 16 as they tend to use leases more extensively. We strive to identify issues related to the capitalisation of leases and the consequences for disclosure quality in order to understand the magnitude of accounting standard change consequences. This in turn can lead to interesting discoveries regarding why companies response similarly or differently to the new accounting standard and by that, provide insights into how the preconditions for analysing financial report information could be influenced. All this leads to the following formulation of research question:

How is the transition to IFRS 16, as disclosed in financial reports of companies in the consumer industry, influencing the preconditions for financial statement analysis?

1.4 Disposition

The paper is structured as follows: in the next section, a literature review on the theory of asymmetric information together with a review on disclosure and IFRS 16 will be presented. Under the method section, a thorough description of the methodology will be provided including data collection, approach of the analysis, and the use and limitations of the chosen method. In the fourth chapter, the empirical findings and accompanying tables regarding IFRS 16 disclosure will be presented, followed by an analysis of accounting quality in the fifth chapter. In chapter six, a discussion about the ability of making own recalculations of metrics from the perspective of stakeholders is made. In the final chapter, a conclusion will be provided along with suggestions for future research.

2. Theoretical framework

2.1 The theory of asymmetric information

In order to understand the importance of adequate information disclosure and what role financial reports have for stakeholders, it is of value to highlight the existence of information asymmetry between companies and stakeholders. Information asymmetry exists between two parties when one party has more information than the other (Akerlof, 1970). In his paper, Akerlof (1970) describes an extreme asymmetric information scenario of a marketplace for cars. Due to the asymmetric information, buyers of cars are unwilling to pay above the average market price, which will drive out sellers of high quality cars while attracting sellers

of low quality cars. This further reduces the average market price for cars and in the most extreme situation, it will eventually lead to market break down. In the case of financial reporting, it is assumed that the preparers of financial reporting possess more information than the users of financial reports (Runesson, Samani & Marton, 2018). Previously, it has been revealed that firms tend to not disclose information that might be harmful for them if there is no regulation (Runesson et al., 2018). Financial accounting only fulfills its purpose under the assumption of incomplete information, because if there would be no information asymmetry, financial accounting would not be needed (Fields, Lys & Vincent, 2001). In the presence of information asymmetry, investors become less prone to invest because the value of the firm cannot be assessed accurately (Runesson, 2015). This is because investors perceive an information risk when the disclosures are insufficient (Runesson, 2015). A method that can help with overcoming this problem is to increase disclosures (Welker, 1995; Healy, Hutton & Palepu, 1999; Leuz & Verrecchia, 2000; Cormier, Ledous & Magnan, 2011; Bhattacharya, Desai & Venkataraman, 2013). When information asymmetry is reduced, investors become more active in making investments (Diamond & Verecchia, 1991; Kim & Verecchia, 1994). The presence of information asymmetry could potentially explain why there are differences in information provision, that is, why companies decide to disclose or disregard certain information. It can be reasonable to assume that if possible, all firms strive to disclose as much information as they can, considering that increase of disclosures facilitates investors in distinguishing between good and bad firms (e.g., Welker, 1995). Any shortage of information should then be due to the costs associated with collecting, providing and disseminating the information. Included are also costs associated with the consequences of disclosing poor performance. For instance, disclosing performance that is below what investors expect might decrease the value of the stocks, which could be costly for the firm.

2.1.1 Information asymmetry when implementing new standards

In a study where IFRS adoption is examined, Wang and Welker (2011) established that information asymmetry between firms and stakeholders increases in conjunction with the transition. This is because the management in a firm possesses information about the effects of the adoption before external stakeholders, as stakeholders receive the information first when the financial reports are published. It was found that management seemingly exploits this knowledge by adjusting their financing plans ahead of the change, as firms tend to strategically time their equity issuance prior to the implementation of IFRS (Wang & Welker, 2011). The reason for this is that if the transition causes performance to appear worse, management will have incentives to issue equity before the information is disclosed and in that way exploit the relatively higher share price. Furthermore, Pope and McLeay (2011) investigated management's discretion regarding information provision during IFRS transition. Despite that first-time adoption of IFRS is regulated, it was found that changed recognitions rules and measurements of ratios can result in that management obtain an opportunity to manage financial numbers into showing better performance (Pope & McLeay, 2011). Considering this, there is a probability that similar patterns might be found for IFRS 16 implementation. Since it can be expected that majority of firms are well aware of what effects

IFRS 16 can induce on the financial statements, firms could during the implementation actively take actions that reduces effects they do not want to be made public.

Manipulation of accounting numbers is detrimental to the quality of accounting. One example of earnings management is known as "the big bath hypothesis", which usually is associated with manager change. A new manager might be tempted to save earnings for the future by recognising as much expenses as possible for the current year and blame the poor performance on the previous manager (Runesson et al., 2018). It is not impossible that changes in accounting standards might lead to similar results. Managers could, as an example, increase the borrowings and blame the change in gearing ratio on IFRS 16. Another example of how asymmetric information can be problematic is when the manager's compensation is based on accounting numbers (Runesson et al., 2018). Since IFRS 16 alters financial metrics, managers might engage in earnings management by for example using IFRS 16 as an excuse to adjust targets to increase their chances of receiving rewards. Hence, apart from having a good understanding of the implications of different accounting choices, stakeholders must also understand the potential incentives managers could have (Revsine et al., 2017), and how discretion over accounting might influence accounting quality during the transition to a new accounting standard.

2.2 Incentives for disclosure

If there is no regulation for financial reporting, disclosure can only be justified if the benefits of presenting the information are greater than the costs of supplying it (Revsine et al., 2017). Hence, any differences found in the scope, timing and content of voluntary disclosure is due to this consideration. Supplying information induce costs related to the collecting, processing and disseminating of information. Sometimes, complicated calculations must be performed in order to make accurate estimations, and more disclosure can also lead to increased audit costs. Another aspect that must be considered when making cost-benefit analysis is that other stakeholders, such as supplier and customers, can use the information to negotiate better contracts (Revsine et al., 2017). For instance, Kim, Kraft and Ryan (2013) state that increased comparability in financial statements results in that debt market participants better can assess firms' credit risk. Although beneficial for creditors, it can be costly for companies. When considering IFRS 16 in particular, more detailed information about leases could result in that the true gearing ratio of firms is unfolded. Institutions such as banks and other creditors might as a consequence require higher interest rates. However, the fact that firms commonly tend to disclose more than required suggests that the benefits of providing information is believed to outweigh the costs (Revsine et al., 2017). Karamanou and Nishiotis (2009) established that there seems to be a positive relation between the amount of disclosure and firm value. In order to attract investments, secure capital at low costs and be able to negotiate better contract terms from supplier in a highly competitive market, firms are incentivised to release news that is favorable for them (Revsine et al., 2017). Firms with good prospects wish to distinguish themselves from bad firms by providing information to help stakeholders with the assessment of risk and the estimation of future payoff. On the other hand, bad firms wish to disguise the bad sides of them by reporting overly optimistic information (Revsine et al., 2017). However,

providing misleading information can damage the firms' reputation and lead to reduced credibility, which might limit their ability to obtain capital.

2.2.1 Disclosure choices in the transition to new standards

Verriest et al. (2013) investigated companies' transition from local GAAP to IFRS and noted that firms had a considerable amount of flexibility when deciding how much information they wanted to disclose. In the study, disclosure and compliance choices that firms made at the implementation of IFRS were examined and the quality of the disclosures were discussed. In order to estimate disclosure quality and transparency of restatements, the authors looked at companies' key value drivers, the numbers of years restated, the format of the restatements and the relative importance of the restatements in the annual reports. Their results revealed that the variation in disclosure and compliance when adopting IFRS were substantial among firms. It was also established that although most firms were transparent about the restatement process, the numbers of firms that restated information for multi-year comparisons were rather low (Verriest et al., 2013). Additionally, it was found that companies with strong corporate governance, including internal control mechanisms and risk management (Denis & McConell, 2003; Gallery, Cooper and Sweeting, 2008), seemingly provided more transparent information and had better disclosure quality (Verriest et al., 2013). In a similar manner, Bishof (2009) found that when IFRS 7 *Financial Instruments* was adopted by firms, voluntary disclosure that related to the standard increased in the annual reports for the transition year.

Gallery et al. (2008) investigated factors that affect the amount and the quality of disclosure during IFRS adoption. In accordance with Verriest et al. (2013), they also noted a positive relation between corporate governance and disclosure quality. In addition, they found that the magnitude of the effects on financial measures, following a standard change, is a determinant for the level of disclosure. In the study, the adoption of the Australian equivalent to IFRS (AIFRS) was investigated. For the transition to AIFRS, it mainly had an effect on net income and equity. It was established that a positive effect on these ratios due to transition should result in that less disclosure is made, while a negative effect is followed by increased disclosure (Gallery et al., 2008). Applying this on IFRS 16, disclosure regarding profitability measures can be anticipated to be less than disclosure for leverage ratios, as IFRS Foundation (2016a) states that profitability is expected to appear better while leverage appears worse.

In addition to the impact of accounting standards, it has been suggested that companies who are profitable are more prone to have a higher amount of disclosure during transition (Palmer, 2005). Moreover, leverage is also an influencing factor, although, the role of leverage was found to be less apparent. While firms that are highly leveraged could be incentivised to extend their disclosures as a way to decrease monitoring costs, there is also a probability that these firms might want to avoid public examining of their gearing levels (Palmer, 2005; Gallery et al., 2008). Furthermore, in conjunction with complying with new requirements, it might be unfolded for some firms that they have already violated terms in debt covenants (Gallery et al., 2008). In those instances, it is difficult to predict how firms will react in their disclosure choices (Gallery et al., 2008). Considering that IFRS 16 has an effect on both

profitability and leverage measures, it is possible that these factors can be determinants for how disclosures are made in the adoption of IFRS 16.

2.3 IFRS 16 Leases

IFRS 16 determines the principles for recognition, measurement, presentation and disclosures of leases (IFRS Foundation, 2019). The main objective of the standard is to ensure that information about lease transactions are faithfully represented and that users of financial statements can assess the amount, timing and uncertainty of cash flows arising from leases. This means that lessees should, unless the lease is of low value, recognise assets and liabilities for all leases that have a term of more than 12 months. As a result, essentially all leases now have similar features as a purchase in the disclosures. The IFRS Foundation (2019) further emphasises that it is the terms and conditions of *contracts*, together with all relevant facts and circumstances, that should be considered when applying the standard. A contract contains a lease if it conveys the right to control an asset for a period of time. The standard should be applied consistently to all similar contracts.

The asset of a lease is representing the right-of-use value, while the liability represents the obligation to make lease payments (IFRS Foundation, 2019). The right-of-use is measured in a similar way as other non-financial assets, and liabilities for leases are measured similarly to other financial liabilities. This results in that, as is the case for other non-financial assets and financial liabilities, depreciation of the asset and interest for the liability also should be recognised. As regarding the measurement of the assets and liabilities, these are initially estimated on a present value basis which involves determining a discount-rate. The amount should include non-cancellable lease payments and payments that are optional but with reasonable certainty can be expected to be made, that is, when option to extend the lease are intended to be exercised or option to terminate the lease are not exercised (IFRS Foundation, 2019). In subsequent measurements of the right-of-use asset, a cost model should commonly be applied, which consists of estimating the cost of the asset less any accumulated depreciation and impairment together with adjustments for any remeasurement of the lease liability (IFRS Foundation, 2019). Similarly, subsequent measurements of lease liabilities include increasing the carrying amount if the interest has increased or reducing the carrying amount to reflect any payments that have been made (IFRS Foundation, 2019).

2.3.1 Transition options for IFRS 16

When companies apply IFRS 16 for the first time, they can choose to either use a full retrospective approach or a modified retrospective approach in the application (IFRS Foundation, 2016b). In essence, the full retrospective approach means that all financial metrics used in comparative financial statements are restated, showing the numbers as if IFRS 16 would have been applied in previous periods. This method makes comparability between years easier since it provides an overview of historical trends, but it requires quite substantial work from the firms. The costs for lessees with large amounts of leases would be significant, as large amounts of historical information and calculation are needed (Morales-Díaz and

Zamora-Ramírez, 2018). The IFRS Foundation (2016b) acknowledged that although this approach is more informative, the costs associated with restating the numbers would be difficult to justify. As a consequence, it was decided that the modified retrospective approach should be available as an option when transition is made to IFRS 16. If using this approach, restating comparative information is not needed. Instead, firms only have to disclose changes in the asset and liability value of the leases (IFRS Foundation, 2016b).

2.3.2 The qualitative characteristics of IFRS 16

Pardo and Giner (2018), who investigated how IASB applied the conceptual framework in developing IFRS 16, found that IASB kept referring to the overall objective of decision usefulness. Other qualitative characteristics that were mentioned to justify the requirements of IFRS 16 include relevance, faithful representation and comparability. Relevance and faithful representations are two fundamental qualitative characteristics that are believed to be very important for the usefulness of accounting (Runesson et al., 2018). Accounting information is deemed as relevant if the information can support readers of financial statements in their decision-making, while faithful representation refer to the ability of financial reports to reflect the underlying economics of the business. Proponents of IFRS 16 believe that financial reporting benefits from the new accounting standard since it improves the disclosure of the underlying economics that arise from lease contracts (Pardo & Giner, 2018) More specifically, when it comes to leases, faithful representation is achieved when financial reporting reflects the right to use an asset and an obligation to make future lease payments (Pardo & Giner, 2018). Comparability is an enhancing qualitative characteristic that refers to comparability between firms, but also over time in a single firm (Runesson et al., 2018). Comparability is suggested to increase with IFRS 16 since, by having most of the leases capitalised on the balance sheet, it makes two companies that have similar operations appear similar regardless of how they have chosen to finance their assets i.e., leasing or owning (Pardo & Giner, 2018).

In addition, Tanase, Calota, and Oncioiu (2018) claim that IFRS 16 leads to increased transparency, as leases are recognized as assets on the balance sheet instead of merely disclosing the amount in a note, which improves decision-making under the assumption that firm risk was not accurately assessed before. It is suggested that IFRS 16 allows different stakeholders, including preparers of financial standards, investors, auditors and academics, to better evaluate lease obligations and thus the total debt of the company (Pardo & Giner, 2018). The qualitative characteristics of IFRS 16 show how the new accounting standard is supposed to improve the usefulness of accounting. However, if firms make different disclosure choices regarding IFRS 16, there could be other consequences for the quality of accounting. As might be indicated, although accounting quality is quite dependent on the actual quality of the standards, it does not fully determine the result. Important to consider is therefore also how firms choose to apply the standards, how they interpret them, and how they disclose the effects of standards. These aspects could be even more critical for the accounting quality. This is especially true for those parts of the disclosure where there is more flexibility, such as presentation of performance measures.

2.3.3 Alternative Performance Measures and changes due to capitalising leases

The income statement, balance sheet, cash flow statement, statement of changes in equity and accompanying notes are compulsory, with their content being regulated by IFRS. However, in addition to these, it is common that firms choose to present supporting financial information, Alternative Performance Measures (APM), to summarise their performance and financial position (Magli, Nobolo & Ogliari, 2017). An APM can be defined as *"a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework"* (ESMA, 2015, p. 45). APMs include metrics such as net debt, EBITDA and EBIT. The aim with APMs is to increase the understanding of the firm's business (Magli et al., 2017). Although not defined and regulated in the accounting standards by IASB, APMs are commonly derived from the statutory financial statements. Moreover, as an attempt to increase the quality, the European Securities and Markets Authority (ESMA) published guidelines regarding APMs and how to disclose them (ESMA, 2015). Similar to IFRS, the purpose with the guidelines is to enhance comparability, reliability and comprehensibility of information. It is for example stated that when making disclosures regarding APMs, definitions of them should be presented in a clear and readable way. In addition, APMs preferably shall be accompanied by comparative numbers for previous periods. And for facilitating reliability in the reporting, a firm's definitions and methods for calculations of APMs should be consistent over time. But if a company does change the definition or calculation of any APM, a description should be made regarding the changes and the cause to the changes, while restated comparative numbers also should be provided. If it is not practical to present comparatives, an explanation for it ought to be given (ESMA, 2015). Although these guidelines set a framework for how firms preferably should disclose the information, disclosures regarding APMs are still made on a voluntary basis. Which metrics that are used and the degree of details given could thus vary substantially as firms can decide to what extent they want to follow the guidelines. Since APMs are used extensively by firms in the financial reports, it is equally important to investigate the impact of IFRS 16 on such measures as it is for mandatory disclosure. Simultaneously, for lease intensive firms, the capitalisation of leases is having a substantial effect on many of these measures (Imhoff, Lipe & Wright, 1991; Morales-Díaz, & Zamora-Ramírez, 2018). Since APMs are not strictly regulated, companies have even more flexibility in the disclosure of them as compared to the mandatory disclosures. Therefore, while the presentation of mandatory information connected to IFRS 16 disclosure can be anticipated to be rather uniform across firms' financial reports, the disclosure of APMs presumably should vary to a larger extent.

Since IFRS 16 requires the majority of leases to be recognised as assets and liabilities, these items will accordingly increase on the balance sheet. Consequently, APMs that are based on numbers on the financial statements are also affected. Several authors have previously investigated the effect of lease capitalisation on financial metrics (e.g., Ashton, 1985; Imhoff, Lipe and Wright, 1997; Beattie, Edwards & Goodacre, 1998), with commonly studied ratios being gearing ratios and various profit metrics. In addition, along with the release of the new leasing standard, IFRS Foundation (2016a) made an effects analysis for frequently used

financial ratios where some notable metrics are D/E, asset turnover, EBITDA, EBIT and operating cash flow. The impact of lease capitalisation on these ratios is that leverage ratio increases due to increased financial liabilities, while asset turnover decreases as total assets increases. As regarding EBITDA, the ratio increases since leases are no longer operating expenses but instead classified as a depreciation cost. Due to the leasing expense being divided into both depreciation and interest expense, EBIT also should increase slightly. Finally, operating cash flow increases as a portion of the lease payments are classified as financing cash flow instead, however, net cash flow remains unchanged.

Although there is a general anticipation of in what direction financial measures are affected, Ashton (1985) states that findings related to the magnitude of the effects of lease capitalisation on performance ratios and decision-making are rather mixed. It can broadly be acknowledged that many financial metrics are affected by changing requirements in the recognition of leases. But evidence regarding the level of impact on the ratios and whether the changes results in any significant effect on decision-making is less clear. Imhoff et al. (1991) found that there were notable effects on risk and returns measures such as D/E and ROA. However, the average change in D/E was remarkably higher than the average change in ROA. Also, the effect of capitalising leases was considerably larger for lease intensive firms than for firms with low level of off-balance sheet leases. They concluded that the difference between capitalising leases and having off-balance sheet leases indeed is material, but the scope of the effects varied across industries, depending on how important off-balance sheet leases are for that specific industry. Nevertheless, Ashton (1985) could only find statistically significant support for the increase of the leverage ratio, while effects in measures such as profit and asset turnover had no statistically significant impact. The study by Elam (1975) had some similar results as no evidence could be found of that lease capitalisation and its effects on financial ratios would enhance the predictive ability of firm bankruptcy. Fülbier, Silva and Pferdehirt (2008) state that lease capitalisation mainly affects ratios that are based on the numbers of the balance sheet although there are some minor effects on profitability measures. It therefore seems that capitalising leases could have various levels of effects on companies' financial statements, and that how they choose to disclose financial numbers might vary depending on the impact on performance measures.

2.3.4 Effects of capitalising leases on company valuation and bonus systems

Much research that has taken a market perspective has investigated market reactions to varied line items (Ball & Brown, 1968; Beaver, 1968; Fama et al., 1969). Particularly, the relation between changes in stock prices and financial information is commonly studied (Runesson, 2015). Accounting is considered value relevant if changes in accounting numbers influence investors' evaluation of firm value. However, as regarding disclosures of leases and value relevance, there have been some mixed results in prior research. Whilst some authors have shown that market participants already consider operating liabilities in their assessment of risk (Ling, Naranjo & Ryngaert, 2012; Altamuro, Johnston, Pandit & Zhang, 2014), other have suggested that capitalisation of leases do lead to better decision-making (Cornaggia et al. 2013; Cotten, Schneider & McCarthy, 2013). Furthermore, Sengupta and Wang (2011) found

that liabilities recognized on the balance sheet have larger effects on valuation than liabilities disclosed in the notes, while Lim, Mann and Mihov (2017) found no difference. Giner and Pardo (2018) conducted a value relevance analysis on operating leases in an attempt to measure the economic effect of IFRS 16. They investigated whether users of financial reports take into account the disclosure of operating leases in the notes, and it turned out to be the case for at least the retail industry. Their findings suggest that IFRS 16 will not have a large impact on valuation from the user's perspective since investors are already aware of the existence of lease liabilities. If the reality is as Giner and Pardo (2018) describes it, that is, users of financial reports take into account the information disclosed in the notes for valuation, then we would expect firms to put minimal effort in disclosing information concerning IFRS 16.

Although changes in accounting standards should not result in changes in how firms are valued (IFRS Foundation, 2019), it is still possible that the perception of risk and profitability changes. Prior research (e.g., Ashton, 1985; Imhoff et al., 1991; Fülbier et al., 2008) have shown that the impact of capitalising leases is large on firms' solvency and therefore might lead to a new assessment of the overall risk of the firm. Since IFRS 16 increases leverage ratio (IFRS Foundation, 2016a), the perception of a firm's risk could increase. Furthermore, Hopper, Kirkham, Scapens, and Turley (1992) noted that financial accounting information many times have to be modified in order to better accommodate the companies' bonus systems. For instance, when it comes to performance evaluation, changed EBIT or EBITDA might require new incentive programmes to better reflect actual performance since an increase in these measures results in that there is a higher possibility for bonuses to be granted, although the performance of the individuals has not improved (Morales-Díaz & Zamora-Ramírez, 2018). In addition, if companies expect a new accounting standard to increase the quality of certain measures, more emphasis will be put on those specific numbers in the compensation contracts (Joos & Leung, 2013). An increased D/E ratio and EBITDA as a result of lease capitalisation makes it relevant to study how companies deal with the possible changed perception of risk and profitability in their financial reports.

There are several tools that can be used for financial statement analysis and the assessing of firm value, such as trend analysis and financial ratios analysis (Revsine et al., 2017). Trend analysis is useful for spotting changes in the cost structure, performance and financial structure of the company. Similarly, analysis of financial ratios may be performed to assess the company's financial performance and risk. Furthermore, understanding the business is crucial when estimating value of firms (Penman, 2013). In general, firms are in involved in three types of activities namely financing, investing and operating activities, where only the last two are considered as value generating. Financing activities are associated with raising capital, and the cash accumulated from these activities is then used for investing activities, for instance to acquire assets. Eventually, the acquired assets are used for operating activities to produce goods or services (Penman, 2013). Since IFRS 16 alters the classification of operating and financing activities, firm value might be affected.

3. Method

Considering the research questions and the purpose of the study, which is to investigate how IFRS 16 affects financial metrics of firms in the consumer industry, how such disclosure is managed in the financial reports at transition and how this might affect the preconditions for stakeholders' analysis, a descriptive approach was deemed suitable. This approach is suggested to allow for obtaining new information by describing a particular phenomenon (Collis & Hussey, 2013). Since IFRS 16 is a quite new accounting standard, the subject is still relatively unexplored. Hence, to learn more about this topic, an exploratory research was required. By conducting an exploratory research, we aimed to increase the familiarity with this topic and contribute to research with new insights that can be used to assist future research to make in-depth studies. As such, rather than providing deep investigations, our study serves more as a guide for future research.

3.1 Selection of companies

In the selection of companies to study, we determined to use the lists Large Cap and Mid Cap on the stock exchange Nasdaq Stockholm as the first step in limiting the scope of the research. Listed firms were selected since most public companies use IFRS in their external reporting. The reason for particularly choosing large companies is because they should be more concerned about the effects of introducing IFRS 16 than small organisations, as Joseph, Turley, Burns, Lewis, Scapens and Southworth (1996) argue that large companies seemingly are more aware of investors' reactions to financial disclosures. According to IFRS Foundation (2016a), the top four industries that will experience most impact on the balance sheet, measured as the increase in assets put in relation to total assets, are airlines, retailers, travel and leisure and transport. As these industries commonly are operating within the Business-to-Consumer sector, we filtered Large Cap and Mid Cap by Business-to-Consumer firms. This gave us a list with 54 companies (see Appendix A), but two companies were immediately dropped because they do not apply IFRS. We also found that firms with a large impact would be more relevant for our study. Since all top four industries with largest expected effect is believed to experience a percentage change of 15 percent or more in assets (IFRS Foundation, 2016a), we decided to use 15 percent as a threshold and selection criteria. Only firms with an equal or larger increase than the threshold were chosen to be further investigated. Each of the firms' financial report was examined in order to attain the effect of IFRS 16 on assets. The increase in the right-of-use value of the assets at the transition day of IFRS 16, which often is stated on the notes of the financial statements, was put in relation to the company's total balance the day before transition. Thus, if the company implemented IFRS 16 at 1 January 2019, the balance of 31 December 2018 was used in our calculations. Of the 54 companies, we could establish that 17 firms had an impact ratio over 15 percent (see table 1 in section 4.1 for list of the companies).

3.2 Material collection

The data collection was based on studying annual reports. The annual reports were examined thoroughly by using key words such as IFRS 16, leasing, leases and right-of-use assets to find relevant information, since they usually contain hundreds of pages. Information about leasing could be found anywhere in the report, but most of the information was presented under a specific note dedicated to leasing, the first note describing the changes in accounting principles and disclosures, the consolidated balance sheet and sometimes in the beginning of the report connected to presentation of financial metrics and targets. Both numerical and non-numerical data were collected from the annual reports because we strived for acquiring information both about the impact of IFRS 16 on financial numbers and how firms manage the implementation. Although we used the literature review to structure the material collection, we still anticipated that much can be discovered as the annual reports were examined. To ensure that our expectations would not limit us and be able to discover new aspects of this issue, we strived to be as open as possible when reading the reports. Therefore, not only direct effects of IFRS 16 were considered, but also, all actions that have been taken by the organisation due to the transition to IFRS 16 were examined.

3.3 Analysis of data

Although being open and flexible during the material collection, when it comes to the analysis of the collected data, creating a contextualisation is more useful and facilitates the analysis. As Collis and Hussey (2013) suggest, qualitative data needs to be understood within a context. It was important that an understanding of the topic and the companies had been created beforehand. For instance, we have understood that within some industries, EBIT is more commonly used than EBITDA and vice versa. This partly confirmed that variations in disclosure *across industries* might need to be considered. Furthermore, the annual reports of the companies were studied and the theoretical framework presented in the previous section guided the study as it provided the context of which the data is interpreted and analysed. For instance, it could sometimes be difficult to understand the different disclosure behaviour of the firms by only looking at the gathered data. But by glancing at the existing theories, the firms' disclosure choices could be understood and explained easier, as we in that way attained something to compare with and could reflect on what the findings actually meant.

One of the main issues with analysing large amount of qualitative data is the lack of instructions on how to structure data (Collis & Hussey, 2013). In order to manage thousands of pages of data in a systematic manner, content analysis was performed to understand underlying themes about disclosure. In particular, this process involved selecting, summarizing and abstracting of data. Data was summarized in tables which facilitated the analysis, and abstracting of data was done by classifying data into different categories. Common categories that we found especially interesting for our study include restatements of APMs, disclosure of financial targets, consistency of IFRS 16 application, indications of disclosure incentives and other implications of IFRS 16. This process enabled us to make

conclusions about how changes in financial reporting requirements could affect accounting usefulness and the preconditions of making financial statement analysis.

3.4 Limitations

IASB requires IFRS 16 to be applied for fiscal years starting in 2019. Since a few of the studied companies do not have calendar year as their fiscal year (AcadeMedia, Clas Ohlson, H&M, Internationella Engelska Skolan, SAS and SkiStar), the standard has not been adopted yet in their most recent annual reports. For instance, the latest annual report from H&M is regarding the period 1 December 2018 to 30 November 2019 (H&M, 2020). This means that IFRS 16 was applied first in 1 December 2019 and will be accounted for in the annual report covering period 2019/2020, published in 2021. However, even though the standard is not affecting the financial statements in their current reports, all of the companies were announcing future changes in accounting standards and hence described how IFRS 16 will affect both their business and disclosures. SAS, for instance, have a rather thorough explanation of the actions that have been taken in order to prepare for IFRS 16 and how they adapted to the new requirements (SAS, 2020a). Moreover, quarterly reports published after the companies' latest annual reports functioned as a complement since IFRS 16 became accounted for in those communications. Although interim reports are not audited to the same extent as annual reports, they could still serve similar functions. For instance, all the firms of which quarterly reports have been used have chosen to follow IAS 34 *Interim Financial Reporting* in their quarterly reports and the financial statements are prepared in accordance with IFRS. Therefore, we believe that although the periods in the companies' fiscal years vary, it did not affect our possibility to make adequate comparisons between the firms.

4. Empirical findings

4.1 IFRS 16 effect on total balance

In the annual reports of the 17 firms, the change in total assets due to IFRS 16 implementation can be detected. It could be established that the increase in total assets for the selected companies varies between 16 and 190 percent (see table 1), which is quite a substantial range. Most of the companies had already implemented IFRS 16 for fiscal year 2019 (those firms having calendar year as fiscal year), however, some will account for IFRS 16 in next annual report. Several of the firms describe what preparations have been made in order to ensure a proper transition to IFRS 16. It appears that adequate preparations have been important to most of the firms and consideration about the effects of the standard has been necessary. For instance, Axfood work with risk assessment as a part of the internal control (Axfood, 2020). In their risk review, they identified that processes and routines for the reporting and monitoring of IFRS 16 was a particular risk factor. The implementation of the standard was hence regarded as a factor especially important to consider in order to secure good internal control and financial reporting. SAS (2020a) emphasised that since IFRS 16 has a notable impact on their income statement and balance sheet, they have reviewed their key financial

ratios to ensure that relevance remains. Furthermore, all companies mention in their annual report that they had to analyse the leasing contracts thoroughly in order to understand the leasing terms. Table 1 shows that the lease contracts affected by IFRS 16 mainly consist of leases for premises, properties and various larger equipments. Leases for computers, tablets and similar are commonly of lower value and hence not required to be capitalised.

Table 1. List of companies displaying their fiscal year, IFRS 16 effect on balance sheet and content of lease contracts

Company name	Period the latest annual report covers (fiscal year)	Effect on balance total (Increase in right of use assets/Total assets)	Type of lease (the majority of lease contracts)
AcadeMedia	1 July 2018 - 30 June 2019	72%	Premises, IT equipment and vehicles
Axfood	Calendar year 2019	48%	Premises, vehicles, machines and IT equipment
Bilia	Calendar year 2019	22%	Properties and office equipments
Boozt	Calendar year 2019	25%	Store and warehouse premises
Byggmax	Calendar year 2019	39%	Properties
Clas Ohlson	1 May 2018 - 30 April 2019	53%	Premises
Fenix Outdoor	Calendar year 2019	28%	Properties and IT equipment
H&M	1 December 2018 - 30 November 2019	47%	Store premises and warehouses
ICA	Calendar year 2019	20%	Properties and premises
Internationella Engelska Skolan	1 July 2018 - 30 June 2019	190%	Premises
Mekonomen	Calendar year 2019	19%	Premises and vehicles
NetEnt	Calendar year 2019	20%	Premises
New Wave Group	Calendar year 2019	18%	Premises, warehouses and cars
Nobia	Calendar year 2019	35%	Premises and vehicles
SAS	1 November 2018 - 31 October 2019	50%	Aircraft, properties and ground handling equipment

Scandic	Calendar year 2019	140%	Properties and land leases
SkiStar	1 September 2018 - 31 August 2019	16%	Land leases, equipments such as piste machinery, snowmobiles and construction machinery

4.2 Disclosure of effects on financial metrics

In essence, all 17 firms state in their financial reports that profitability measures such as EBIT or EBITDA, and gearing ratios such as equity ratio or D/E, have been much affected by IFRS 16. Several also emphasise operating cash flow and financing cash flow as measures that have been altered. Table 2 exhibit various APMs and cash flow measures the companies have presented, both according to IFRS 16 and without IFRS 16, i.e. in accordance with IAS 17. In the fifth column we also attempt to make our own calculations of those comparative metrics that the companies did not disclose, by using the information available in their annual reports. It can be noted that almost all of the firms have chosen to disclose recalculated numbers for some APMs, only Boozt and Fenix Outdoor did not present any restatements. Boozt (2020) state that IFRS 16 has an effect on key metrics such as equity ratio, however, they do not present any restated numbers for the equity ratio. In fact, all APMs for the current year are only calculated with IFRS 16 and the effect of capitalising leases is thus not shown. The same applies for Fenix Outdoor, who also do not present the effect of IFRS 16 despite stating in their 2018 annual report that it is estimated to have a significant impact on EBITDA (Fenix Outdoor, 2019). The restatements at NetEnt and Nobia are also at the bare minimum, as only one APM is recalculated at each company, EBIT at NetEnt and D/E at Nobia (NetEnt, 2020; Nobia, 2020). On the other hand, Byggmax (2020) motivates the presentation of EBITA both with and without IFRS 16 by stating that they believe it is of high relevance for investors to understand profit generation before IFRS 16 impact. Among the companies that did restate APMs, the recalculations are commonly made for the current year, i.e. the year IFRS 16 is applied for the first time. However, there is one exception. ICA has favoured another approach in their disclosure since instead of recalculating the numbers for year 2019, they present recalculated numbers for 2018. Various key metrics are calculated as if IFRS 16 would have been applied in 1 January 2018, which they state has the aim of facilitating comparison (ICA, 2020).

Table 2. Selection of financial metrics and their value with and without IFRS 16 effect

Company name	Financial metrics	Metrics with IFRS 16	Metrics without IFRS 16 (calculated in accordance with IAS 17)	Missing comparative metrics (our own calculations)*
AcadeMedia	EBITDA	1773 MSEK	739 MSEK	
	EBIT	639 MSEK	484 MSEK	
	Net debt/EBITDA	-	2.3 times	-
	Equity ratio	-	49.6%	28.1%
	ROCE	-	9.3%	-
Axfood	EBIT	2288 MSEK	2114 MSEK	
	EBIT margin	4.5%	4.2%	
	D/E	1.2 times	-0.1 times	
Bilia	EBIT	1125 MSEK	1079 MSEK	
	Net debt/EBITDA	2.3 times	1.3 times	
	Equity ratio	20%	24%	
	ROCE	15.8%	20.8%	
	Operating cash flow	577 MSEK	423 MSEK	
Boozt	Adjusted EBIT**	109 MSEK	-	102.3 MSEK
	EBIT	91,8 MSEK	-	85.1 MSEK
	Equity ratio	37.9%	-	45.6%
	Financing cash flow	66.1 MSEK	-	113.6 MSEK
Byggmax	EBITA	269.7 MSEK	252 MSEK	
	Equity ratio	29.8%	41.1%	
Clas Ohlson	EBITDA	1099.2 MSEK	678.1 MSEK	
	EBIT	590 MSEK	515 MSEK	
	EBIT margin	8.3%	7.2%	
	Equity ratio	30.3%	50.4%	
	Net debt/EBITDA	1.9 times	-0.3 times	
	Operating cash flow	1318 MSEK	943 MSEK	
Fenix Outdoor	EBITDA	128 MEUR	-	99.6 MEUR
	ROA	18.3%	-	20.4%
	Equity ratio	57.6%	-	73.6%
H&M	EBIT	2690 MSEK	2371 MSEK	
	Net debt***/EBITDA	-	0.1 times	-
ICA	EBITDA 2018	9850 MSEK	6302 MSEK	
	EBITDA 2019	10193 MSEK	-	6368 MSEK
	EBIT margin 2018	4%	3.9%	
	EBIT margin 2019	4.1%	-	3.8%

	Net debt/EBITDA 2018	2.1 times	0.8 times	
	Net debt/EBITDA 2019	2 times	-	0.7 times
	Operating cash flow 2018	10326 MSEK	6802 MSEK	
	Operating cash flow 2019	9748 MSEK	-	6265 MSEK
Internationella Engelska Skolan	EBITDA	675 MSEK	293 MSEK	
	EBIT	283 MSEK	209 MSEK	
	Net debt/EBITDA	5 times	-0.2 times	
	Equity ratio	20%	62%	
Mekonomen	EBIT	705 MSEK	685 MSEK	
	Net debt/EBITDA	3.59 times	3.68 times	
	Equity ratio	34%	39.3%	
NetEnt	EBIT	529 MSEK	468 MSEK	
	Equity ratio	23%	-	24.4%
New Wave Group	EBITDA	768 MSEK	632.1 MSEK	
	D/E	78.6%	57.2%	
	Equity ratio	44.9%	49.7%	
Nobia	EBIT	1132 MSEK	-	1077 MSEK
	EBIT margin	8.1%	-	7.7%
	D/E	89%	31%	
SAS	EBIT	-767 MSEK	-836 MSEK	
	D/E	4.75%	0.83%	
	Net debt/EBITDAR****	-	4.1 times	-
Scandic	EBITDAR****	-	7107 MSEK	-
	EBITDA	5425 MSEK	2134 MSEK	
	Adjusted EBITDA*****	-	2046 MSEK	-
	EBIT	2144 MSEK	1275 MSEK	
	Net debt/adjusted EBITDA*****	-	1.7 times	-
SkiStar	EBIT	508 MSEK	504 MSEK	
	Equity ratio	43%	46%	

All numbers are retrieved from the companies' most recent annual reports except for AcadeMedia, Clas Ohlson, H&M, SAS and SkiStar as IFRS 16 was not yet implemented for their latest annual reports. For AcadeMedia and Clas Ohlson, the Q3 2019/2020 reports have been used, covering nine months of their fiscal year. For H&M and SAS, the Q1 2019/2020 reports were used, covering three months of their fiscal year. For SkiStar, the Q2 report was used, covering six months of their fiscal year.

Depending on how much is disclosed in each company's financial report, one or several profitability and leverage measures are included. When applicable, operating or financing cash flow is also presented. Where numbers are missing, indicated with (-), no comparable numbers have been given in the financial reports.

* Some comparative metrics could not be calculated with IFRS 16 because they are based on trailing 12-months numbers, which are not available at the time of writing this paper.

** EBIT adjusted for share-based payments to employees and items affecting comparability.

*** Net debt is defined as pension liabilities plus interest-bearing liabilities less cash and cash equivalents and

short-term investments.
**** IFRS 16 does not affect EBITDAR as the measure is calculated before depreciation and rent costs.
***** IFRS 16 does not affect adjusted EBITDA as the measure is defined without the effect of finance leases.

H&M has a fiscal year starting at 1 December each year. As their most recent financial report concerns 1 December 2018 to 30 November 2019, IFRS 16 effects will appear first in the 2019/2020 annual report. However, there was some information available about the upcoming impact of IFRS 16. H&M (2020) stated that they will be dealing with the accounting consequences by continuing to present the gearing ratios without the effect of IFRS 16 in the coming financial reports. By doing so, they believe it provides a more accurate reflection of the actual capital structure of the company, since the same figures are used for internal monitoring in the organisation as well. Other financial ratios will be defined both with and without the effect of IFRS 16. It is further stated that key ratios and indicators are used to follow-up, analyse and govern the business, implying that these financial metrics are important for internal accounting.

In AcadeMedia's presentation of key financial measures, the calculation is slightly varied as some of the metrics include IFRS 16 and some do not (AcadeMedia, 2020). EBIT and EBITDA are presented including IFRS 16, whereas equity ratio, ROCE and net debt/EBITDA are calculated without (EBITDA is being adjusted for IFRS 16 in the calculation of net debt/EBITDA). The reason for ROCE and net debt/EBITDA not being calculated with IFRS 16 effect is because the numbers for the previous fiscal year have not been revised, and they use trailing 12-months numbers for these metrics in their quarterly report (AcadeMedia, 2020). The trailing 12-month approach is sometimes used in interim reports to be able to compare quarterly numbers with full-year numbers. Due to that previous years' numbers have not been restated, AcadeMedia must wait until the first fiscal year with IFRS 16 is complete in order to calculate net debt/EBITDA and ROCE with IFRS 16 effect. SAS also base several of their key ratios on trailing 12-month numbers. Since they first applied IFRS 16 in 1 November 2019, a full trailing 12-month income statement will be available earliest in the beginning of fiscal year 2020/2021 (SAS, 2020a). Therefore, those number that are based on trailing months will in the financial report for fiscal year 2019/2020 be based on numbers without IFRS 16, while those ratios that are calculated on closing balances will be presented with IFRS 16 effect.

Scandic have in their annual report for 2019 presented the metric EBITDAR (Scandic, 2020b). However, in their annual report for 2018 (Scandic, 2019), this measure was not mentioned anywhere in the report. EBITDAR is in annual report 2019 displayed in a section describing the effects of IFRS 16. It therefore seems that EBITDAR has been added as a key performance measure as a consequence of IFRS 16. They state that rent cost makes a significant part of their total costs and the metric is included in order to facilitate comparability over time (Scandic, 2020a). However, throughout their report, it is largely adjusted EBITDA that is used, which is presented without IFRS 16 effect. For instance, their financial targets are based on adjusted EBITDA and five-year comparison graphs are used to

visualise adjusted EBITDA (Scandic, 2020b). This was also the case for their annual report 2018 (Scandic, 2019). Hence, although EBITDAR is a measure that has emerged due to IFRS 16, it seems that adjusted EBITDA still is a more prominent financial measure for Scandic. In contrast, SAS also present EBITDAR but they have done so for a long time, before IFRS 16 was implemented, and their financial targets are partly based on EBITDAR (SAS, 2020).

It can be established that none of the companies restate their APMs for more than one year back in time. This is since all 17 companies have chosen to use the modified retrospective approach in the transition to IFRS 16, where recalculated metrics for comparative periods are not required. Considering this, time-series analyses could be more difficult to make. In an overview displaying the operating cash flow development between 2015 to 2019 at ICA, the numbers were stated without IFRS 16 effect from 2015 to 2018 (ICA, 2020). But in 2019 IFRS 16 was included. As ICA did recalculate 2018 numbers, it could be observed that the margin shifted substantially in 2018 due to IFRS 16 (see figure 1). By looking at the large effect IFRS 16 has, it can be established that if five-year analyses are made, comparability could be affected for several years after implementation.

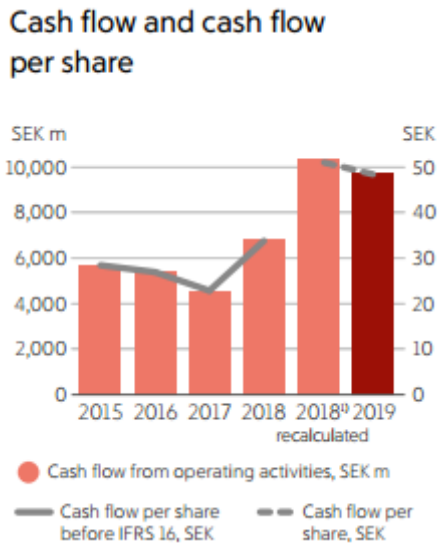

Figure 1. Comparative numbers of operating cash flow for five-year period (ICA, 2020).

Many of the companies choose to only apply IFRS 16 for the group and not the operating segments. Information that is used for the disclosure of the operating segments are instead based on internal management reports, where IFRS 16 does not have to be applied. AcadeMedia (2019), for instance, states that they continue to use the old accounting principles for the segments since those standards are used as a basis when the segments are internally evaluated. It thus appears that although IFRS 16 and its effect is included when evaluating the group's performance, the segments are assessed at other terms. In contrast, Axfood and New Wave Group calculated the IFRS 16 effect, on EBIT and EBITDA respectively, for each of their segments and the numbers were disclosed both with and without IFRS 16 (Axfood, 2020; New Wave Group, 2020).

4.3 Initiatives made in response to IFRS 16

Similar to H&M, information about how IFRS 16 will be accounted for was disclosed in the annual report from SAS. Nevertheless, the information at SAS was considerably more detailed, as disclosure was made about several of their initiatives before the implementation of IFRS 16. For instance, they announced that as a part of preparing for the changes, hybrid bonds to a value of SEK 1.5 billion were issued with the purpose to strengthen the equity position before adopting the new standard (SAS, 2020a). This indicates that they were well aware of what consequences their financial position might encounter, and by that, took actions to mitigate the effects.

A somewhat surprising finding, which seemingly has not been highlighted in previous lease accounting literature, was that transition to IFRS 16 might result in increased exposure to exchange-rate fluctuations. SAS (2020a) state that the new standard had a major effect on this aspect as most of their lease liabilities needed to be recalculated from a foreign currency into the currency used in their consolidated financial statements. In the first quarter of fiscal year 2019/2020, the exchange-rate difference due to IFRS 16 amounted to -31 MSEK (SAS, 2020b). As a direct consequence of this, their hedging policy was given more attention internally and became adjusted in order to better manage the increased exchange-rate risk. Another unexpected discovery was that goodwill could be affected due to the capitalisation of leases. The D/E at Nobia experienced a significant increase as a consequence of IFRS 16, from 31 percent to 89 percent, which affected the average cost of capital (Nobia, 2020). The average cost of capital decreased due to the higher D/E, as equity commonly is more expensive than debt. This, in turn, affects the estimation of write-off for goodwill since average cost of capital is a critical component in those calculations. In addition, operational cash flow is also needed for the estimation (Nobia, 2020). Since both of the factors are affected by IFRS 16, the standard could have a large impact on goodwill. However, in the case of Nobia the effect was positive, and no write-off was needed.

Mekonomen (2020) report that their borrowings at banks include debt covenants. However, they estimate that IFRS 16 will not affect their ability to fulfill the terms found in the debt covenants. It can further be noted in a footnote that it is net debt/EBITDA without IFRS 16 that is reported to the banks, and Mekonomen argue that these numbers are well within the requirements in the covenants. It is also established that net debt/EBITDA is the main financial ratio used by the board when assessing the firm's capital structure. Nevertheless, their net debt/EBITDA actually decreased due to IFRS 16, from 3.68 times to 3.59 times, meaning that including IFRS 16 adjustments would have decreased the financial risk in their case.

4.3.1 Revising financial targets

Another aspect that most companies had to consider was the financial targets. The effects of changed financial measures required several firms to revise their targets in order to keep them relevant. Five companies either had or were planning to revise the targets (see table 3). For instance, ICA decreased the target for ROCE from 10 percent in year 2018 (ICA, 2019), to

7.5 percent in the beginning of 2019 (ICA, 2020). Net debt/EBITDA was also changed, from a target of below 2, to a target of below 3. Axfood also revised their financial target as a result of IFRS 16 (Axfood, 2020). The target for equity ratio was set to 20 percent in 2019, as compared to 25 percent in 2018 (Axfood, 2019). However, the target for EBIT margin remained at 4 percent. The reason for this not being changed might be explained by the fact that the effect of IFRS 16 on EBIT margin was rather small, with only a 0.3 percent unit increase (see table 2). Especially notable is that Byggmax not only revised the numbers for the target, but they also changed the performance measure from using EBITDA to instead using EBITA (Byggmax, 2019). AcadeMedia made clear that the work for revising financial targets due to IFRS 16 has started and new will be set for fiscal year 2019/2020 (AcadeMedia, 2019). SAS, who applied the standard from 1 November 2019, also plan to revise their financial targets. They announce that the targets will be reviewed for fiscal year 2019/2020 in order to ensure that they maintain relevance (SAS, 2020a).

Seven of the companies opted for another approach. These firms did not change their financial targets, but instead, they evaluate firm performance by using measures without IFRS 16. For example, Bilia established in their report that company performance should be evaluated based on metrics before IFRS 16 effect (Bilia, 2020). Scandic (2020b) use adjusted EBITDA margin and net debt/adjusted EBITDA for measuring their target fulfilment, where adjusted EBITDA is calculated without IFRS 16. For Nobia, D/E is evaluated without IFRS 16 while EBIT margin is evaluated with effect. Furthermore, Mekonomen (2020) state that follow-ups are made continuously in the internal reporting and they have chosen to use metrics without IFRS 16 effect when performance evaluation is made. Clas Ohlson (2020) also explain in their Q3 report that their targets, including EBIT margin and net debt/EBITDA, will be evaluated by using performance measures without IFRS 16. Evaluating targets achievement by using performance indicators without IFRS 16 might be appropriate in cases when financial targets are cumbersome to adjust.

Fenix Outdoor and New Wave Group did not change their targets either, however, they did not state whether measures without IFRS 16 effect are used or not when evaluating performance. Nevertheless, when looking at their financial targets, it can be noted that they have a long-term approach, as New Wave Group evaluates their target achievement over a whole economic cycle (New Wave Group, 2020). Evaluating performance over a longer period results in that changes of performance measure, due to accounting alterations, in one year might be less significant as the effects will be diluted over the measurement period. In NetEnt's report for year 2019, no information regarding financial targets could be noted (NetEnt, 2020), even though they included financial targets in their annual report for 2018 (NetEnt, 2019). Whether this remove of financial targets is due to IFRS 16 or not is uncertain, although it is not impossible as their leverage ratio was substantially decreased in 2019, compared to their historical ratio (see table 2 and 4).

Table 3. The influence on financial targets as a result of changed financial metrics

Company name	Financial targets changes due to IFRS 16
AcadeMedia	To be revised for fiscal year 2019/2020
Axfood	Revised for fiscal year 2019
Bilia	No change - company performance evaluated using metrics without IFRS 16 effect
Boozt	No change - adjusted EBIT margin maintained at exceeding 6%
Byggmax	Revised for fiscal year 2019 - changed from EBITDA (9-10%) to EBITA (7-8%)
Clas Ohlson	No change - company performance evaluated using metrics without IFRS 16 effect
Fenix Outdoor	No change - long-term targets
H&M	No change - D/E evaluated without IFRS 16
ICA	Revised for fiscal year 2019
Internationella Engelska Skolan	No change - company performance evaluated using metrics without IFRS 16 effect
Mekonomen	No change - company performance evaluated using metrics without IFRS 16 effect
NetEnt	No information
New Wave Group	No change - financial targets evaluated over an economic cycle
Nobia	No change - D/E evaluated without IFRS 16, EBIT margin evaluated with IFRS 16
SAS	To be revised for fiscal year 2019/2020
Scandic	No change - company performance evaluated using metrics without IFRS effect
SkiStar	No change - IFRS 16 not implemented yet in latest annual report

4.3.2 Bonus programmes

Although bonus programmes many times are based on the achievement of the firms' financial targets, the policies for bonus do not seem to have been revised. Instead, they are commonly measured without IFRS 16 effect. For instance, Fenix Outdoor (2020) describe in their annual report in detail how the variable compensation for performance in 2019 is determined. Return

on total assets is one of the measured used, and it is made clear that total assets are defined without the effect of IFRS 16. Even though Fenix Outdoor only present metrics including IFRS 16 in their report (table 2), they base their incentive programmes on measures without IFRS 16. The long-term bonus programme at ICA measures both relative and absolute performance (ICA, 2020). The target to be achieved for the relative performance includes achieving a certain level of EBIT margin compared to peers. This means that it does not matter whether the targets are based on IFRS 16 or IAS 17 (with or without IFRS 16 effect), as long as the measures used for performance evaluation are consistent for all peers. For the absolute performance, EBIT margin is again a target that determines the bonus. However, since absolute performance is based on fixed targets, the margin is measured without items that affect comparability (ICA, 2020). This indicates that rather than changing the targets used in incentive systems, old targets are kept and metrics without IFRS 16 influence are used when evaluating performance. The policy for variable remuneration also remained at Axfood. The remuneration is mainly based on the group's result (Axfood, 2020). In the section with information about the terms for incentives it can be noted that, among other terms, the average EBIT margin measured in a 3-year period should exceed 3.5 percent. This target has been constant during 2017 to 2019. This, however, might be expected since the EBIT margin that was set as a financial target for the group also remained at 4 percent. Naturally, the EBIT margin target for remuneration is constant as well. H&M (2020) state that their variable remuneration partly is based on the company's financial targets. However, as can be noted from table 3, these targets have not been revised either.

4.4 Historical profitability and leverage at the companies

Table 4 displays what specific industry each company is operating within, along with their profitability and leverage for three years prior to IFRS 16 implementation. Profitability is here measured as the companies' EBIT margin while leverage is measured using equity ratio. EBIT margin is a common measure to evaluate performance and has been used frequently in research (e.g., Hu & Ansell, 2007; Becker-Blease, Kaen, Etebari & Baumann, 2010). The metric has the advantage of allowing comparability across firms without considering their financing policies. A high margin is preferable as it indicates the amount of sales that is disposable for interest, taxes and dividends or investments in the firm. For the 17 firms, it seems that Fenix Outdoor, NetEnt and SkiStar have the highest profitability as measured by their EBIT margin. As regarding leverage, a high equity ratio means that the leverage is low, while a low equity ratio indicates that leverage is high. Statistics from SCB (2019) shows that the average equity ratios for firms within the industries retail, education, gaming and vehicle service ranges between approximately 30-40 percent. The ratio is slightly lower for airline and travel and leisure companies, with the average being 10-20 percent. Table 4 displays that the equity ratio for many firms is around their industry average. However, for Boozt, Clas Ohlson, Fenix Outdoor, H&M, Internationella Engelska Skolan, NetEnt, Nobia, Scandic and SkiStar the ratio is a bit higher. It can also be noted that even though H&M historically have had a rather high EBIT margin and equity ratio, these ratios have decreased steadily. Similarly, it can be seen that the profitability at Byggmax also has decreased considerably during the three past years.

As can be noted from the table, the majority of the companies are within the retail industry although within different areas, such as food or clothing. Boozt and Fenix Outdoor both belong to the retailing (clothing) industry and both have chosen to only present APMs with IFRS 16 effect in their financial reports (see table 2). However, while Fenix Outdoor has a rather high EBIT margin, Boozt have a much lower margin, the lowest among the 17 firms. Also, when comparing the equity ratios, Fenix Outdoor have a significant higher ratio than Boozt. Glancing at table 2 and the equity ratio for 2019 (with IFRS 16 effect), it can be noted that the ratio has decreased remarkably the most recent year, 37.9% at Boozt and 57.6% at Fenix Outdoor. Nevertheless, looking at column five in table 2, it can be established that a large part of the decrease can be attributed to IFRS 16 effect. Therefore, disclosing the effect of the standard implementation could have been more beneficial in their case.

In contrast to Booz and Fenix Outdoor, H&M did not disclose their gearing ratio (net debt/EBITDA) with IFRS 16 for 2019. At the same time, their equity ratio has decreased every year from 2016 to 2018 (table 4). As IFRS 16 decreases equity ratio, presenting it without the effect is advantageous as it makes financial position to appear better. Similarly, Nobia only disclosed their profitability measures with IFRS 16 and not without, resulting in that the level of impact of IFRS 16 cannot be established. In the case of profitability, IFRS 16 results in that these metrics appears better. It can be noted that for Nobia, the profitability has decreased slightly each year. Drawing on these examples, it is indicated that negative developments in profitability or leverage could result in that firms choose to decrease their disclosure. In this case, the effect of IFRS 16 on EBIT margin and equity ratio were not presented, and the firms instead chose to only disclose the numbers that were improved due to IFRS 16.

Table 4. Industry, profitability and leverage

Company	**Industry**	**Profitability measure**			**Leverage measure**		
		2018	**2017**	**2016**	**2018**	**2017**	**2016**
AcadeMedia	Education	5.8%	6.5%	6.2%	45.4%	43.9%	41.5%
Axfood	Retail (food)	4.2%	4.1%	4.4%	37%	39%	39.1%
Bilia	Retail (vehicles)	3.3%	3.4%	3.5%	24%	24%	25%
Boozt	Retail (clothing)	2.3%	2.4%	2.1%	47.5%	57%	46%
Byggmax	Retail (construction parts)	3.7%	5.1%	7.5%	36.7%	37.3%	35.9%
Clas Ohlson	Retail (e.g. home and leisure)	5.7%	7.6%	6.7%	53.9%	57.7%	54.5%

Fenix Outdoor	Retail (clothing)	15.4%	15.7%	12.4%	70.9%	62.1%	58%
H&M	Retail (clothing)	7.4%	10.3%	12.4%	49.3%	56%	62.1%
ICA	Retail (food)	3.9%	4.8%	4.2%	41.2%	41%	39%
Internationella Engelska Skolan	Education	6.5%	9.7%	9.4%	72.9%	74.2%	62.6%
Mekonomen	Service (vehicles)	5%	9%	8%	36%	43%	43%
NetEnt	Gaming systems	33.7%	35.6%	36.8%	70.7%	69.2%	70%
New Wave Group	Retail (clothing)	7.7%	8.4%	7.6%	48.6%	50.9%	48.4%
Nobia	Retail (kitchen)	7.7%	10.1%	10.3%	50%	58%	43%
SAS	Airline	5.6%	5.1%	4.8%	21%	25%	19%
Scandic	Travel and leisure	5.5 %	6.3%	7.1%	44.01%	43.36%	50.22%
SkiStar	Travel and leisure	24%	22%	22%	50%	46%	46%

5. Analysis

5.1 Effect of IFRS 16 on financial metrics

As predicted by prior literature (IFRS Foundation, 2016a; Morales-Díaz, & Zamora-Ramírez, 2018), financial metrics such as EBITDA and EBIT, and any measure that uses debt or assets in the calculation, have across the firms been affected to a large extent by the adoption of IFRS 16. In general, profitability has improved due to increased EBITDA and EBIT, while the financial risk has deteriorated due to increased liabilities. However, it can be noted that this might not always be the case. For instance, Mekonomen uses net debt/EBITDA as the main key performance indicator to evaluate the capital structure and when reporting numbers to the banks. In their case, the net debt/EBITDA has actually decreased as a result of IFRS 16, which indicates reduced financial risk. This variation in how financial measures are affected has an important implication for the perception of firm value and the significance of sufficient disclosure. Considering that much literature predicts leverage ratios to deteriorate due to capitalising leases, investors might expect that it will be true for all firms. However, by extending the disclosure regarding this matter, as Mekonomen did, transparency increase and stakeholders can become aware of the true effects. This demonstrates how increasing disclosure could be beneficial for firms, as discussed by Karamanou and Nishiotis (2009).

Due to IFRS 16, the classification of cash flow has been altered, which prior literature also has touched upon (IFRS Foundation, 2016a). In particular, operating cash flows have

increased whereas financial cash flows have decreased. According to Penman (2013), only operational and investing activities create value and not financial activities. The fact that the operating cash flows have increased for many companies as a result of IFRS 16 (e.g. Bilia, Clas Ohlson and ICA) might indicate that the old accounting standard IAS 17 underestimated the value of operational activities, under the assumption that the classification according to IFRS 16 is more correct than IAS 17. Thus, although changes in accounting principles do not increase the underlying value of the firm, the transition to IFRS 16 can help financial report readers distinguish between value generating and non-value generating activities through the reclassification of cash flows, and in that way affect the estimation of firm value. With this reasoning, adopting new accounting standards may in some instances, as in this case, lead to higher estimations of firm value. It can be suggested that firms who use leases more extensively might benefit more from IFRS 16 because they experience most increases in operating cash flows.

IFRS Foundation (2016a) anticipated that the airline, retailing, travel and leisure and transport industry would experience the largest effect on their balance sheet. However, AcadeMedia and Internationella Engelska Skolan, who is operating within the education sector (see table 4 for industry grouping of the firms), seem to have had even higher impact on balance total. We argue that these expectations of IFRS 16 effect could potentially influence disclosure. For example, AcadeMedia only disclosed their equity ratio without IFRS 16. If stakeholders do not expect the ratio to be severely affected, they might not bother with recalculating it. In that way, firms that are not anticipated to be affected could intentionally be less transparent in their disclosure, as stakeholders might not demand any additional information. But when we calculated AcadeMedia's equity ratio into including IFRS 16, it could be established that it decreased to a rather low 28.1 percent (table 2). This shows that knowing the effect of IFRS 16 could be even more material for financial report readers when the actual effect deviates from the anticipated effect. In this case, the large effect on firms within education was not anticipated.

5.2 Restatements and disclosure choices about financial measures

It can be established that, in general, displaying the effect of IFRS 16 on APMs seems to be of value for majority of the firms as 15 of the 17 studied firms presented at least some recalculated measures in their financial reports. Many of the firms thoroughly described the increase or decrease in financial metrics for the fiscal year that IFRS 16 was implemented. An understanding of how IFRS 16 affects key performance measures was hence made possible in most cases. Nevertheless, all firms have chosen the modified retrospective approach when applying IFRS 16. This restatement pattern found for IFRS 16 adoption thus seem to be in accordance with what Verriet et al. (2013) noted for IFRS implementation, namely that firms tend to be transparent about the changes but rarely present recalculated numbers for multi-year comparisons. The reason why these firms chose to apply the retrospective method is seemingly because they consider the cost of recalculating all historical numbers to be too large. The amount of information disclosed is affected by the benefits and costs associated with providing additional content, and additional content are only presented if the benefits

exceed the costs (Revsine et al., 2017). As such, recalculated numbers for historical years does not seem to bring too large benefits. However, they seem to see benefits with recalculating this year's financial metrics. This implies that firms are concerned about how investors might perceive them, otherwise they would not have recalculated any metrics at all as it requires much resources.

Although most firms recalculated their numbers, there were still some variations across the firms as Boozt and Fenix Outdoor did not present any recalculated APMs at all. Since cost-benefit analysis is necessary when deciding level of disclosure, any additional recalculated financial metric should increase the cost for the firm. As such, those that do not present recalculated numbers presumably assess that it is not necessary to clarify changes in financial metrics that are caused by IFRS 16. A plausible explanation for not recalculating financial metrics is that retail companies, such as Boozt and Fenix Outdoor, believe that financial report readers can see through the accounting and that it hence is unnecessary to spend additional resources on restatements. This could be in line with the findings of Giner and Pardo (2018) who found that capitalisation of leases in the retail industry does not change investors' assessment of firm value, because in investors' calculations, they have already taken into account the operating leases by looking in the notes.

However, there were also findings that support the suggestions made by Sengupta and Wang (2011), namely that liabilities disclosed on the balance sheet affects valuation more than liabilities disclosed in the notes, and that capitalising leases hence is of value for readers of financial reports. For instance, SAS decided to issue hybrid bonds in order to improve their equity ratio. This was explained to be a direct consequence of IFRS 16 implementation. The fact that SAS took measures to mitigate the effects of IFRS 16 suggests that they consider disclosures in the balance sheet to have more significance than disclosures in the notes. If they were not concerned about how financial report readers would perceive them after the adoption of IFRS 16, they would not have been bothered to take such actions. Additionally, Mekonomen stated that the numbers for their net debt/EBITDA is reported to their creditors without IFRS 16 effect. Since the debt covenants are reported without lease liabilities, it indicates that stakeholders such as banks do not concern liabilities disclosed in notes, and instead agreed upon numbers on the financial statements only when the debt covenants were signed. However, as IFRS 16 moves the lease liabilities from the notes to the financial statements, creditors will presumably demand new terms in their debt covenants. As Revsine et al. (2017) noted, stakeholders can use information in financial reports to negotiate better contracts with firms. Considering that Mekonomen highlighted this issue in their report, it indicates that there is an awareness of that IFRS 16 can result in changed probability of violating debt covenants.

5.2.1 The influence of IFRS 16 effect, corporate governance, profitability and leverage on disclosure

The lack of regulation for APMs results in that there is less uniformity regarding disclosure for them. In addition to the cost-benefit explanation for the variation between firms, factors

such as the magnitude and direction of the effect of new accounting standards, and a company's corporate governance, profitability and leverage might be particularly influencing for APMs, which prior literature has discussed in connection to IFRS implementation.

As regarding the effect of IFRS 16, it was established that profitability ratios are positively affected, while gearing ratios commonly are negatively affected. Considering the suggestions by Gallery et al. (2008), more information about effects on leverage impact could therefore be expected. However, examples of the opposite behaviour could be found among the firms. For instance, NetEnt disclosed the effect of IFRS 16 for EBIT but not for the equity ratio. This is contradicting since a thoroughly description of the IFRS 16 consequences and extensive information about debt would be more beneficial. By highlighting IFRS 16 effect, firms can show their stakeholders that changes in for example gearing ratios are solely due to the accounting effect of IFRS 16 and not because of poor performance. However, there might be a rational explanation behind NetEnt's behaviour. If a firm have unsatisfying leverage, they could instead have incentives to decrease disclosures and transparency. If they want to increase their borrowings and attribute it to the implementation of IFRS 16, similar to "big bath accounting" (Penman, 2013), it is wiser to not disclose the effect. If there is no information about how large the impact of IFRS 16 is on the leverage ratio, firms could increase their borrowings excessively and refer a part of it as "increase in leverage due to IFRS 16 effect", without the reader knowing how much of it actually is due to IFRS 16. Moreover, instead of disclosing the effects on gearing ratios, firms could present more information about profitability measures in order to shift the focus. In the case of NetEnt, their equity ratio has historically been rather high compared to the industry, being around 70 percent (as can be seen in table 4). But the ratio has decreased substantially for year 2019, as table 2 shows that their equity ratio (with IFRS 16 effect) decreased to 23 percent. Despite this, they did not present the effects of capitalising leases. Such contradictions to the anticipated disclosure choices should raise some awareness when analysing financial statements, as management incentives might be the underlying reason for the disclosure behaviour. In fact, as can be seen in column five in table 2, which comprises our own calculations of the APMs, it is noted that even without IFRS 16 effect NetEnt's equity ratio is still at a low 24.4 percent. When looking at their balance sheet in their annual report, it can indeed be noted that they have increased their borrowings from banks by approximately 565% in relation to previous year's total liabilities, which further strengthen the indication that big bath accounting might not only be related to manager shifts, but also could be applicable in conjunction with accounting standard transitions.

As for corporate governance and its impact on disclosure amount and quality, we found some support for the relationship Verriest et al. (2013) and Gallery et al. (2008) described. Axfood stated that they have reviewed IFRS 16 implementation in their internal control. At the same time, they had rather extensive disclosure regarding effects on target setting and various APMs. For instance, only Axfood and New Wave Group presented the effect of IFRS 16 on profitability measures for their segments. It thus seems that for IFRS 16 adoption, corporate governance could have an influencing role. But corporate governance comprises many components, such as internal control and risk management. Hence, to enhance the

understanding of the relationship between corporate governance and accounting quality during standard changes, investigating how each component is influential for disclosure choices is needed.

Looking at the historical development of profitability or leverage might also explain disclosure choices. Palmer (2005) states that profitable firms tend to have more disclosure during standard transition as compared to less profitable firms. Less profitable firms might want to hide certain numbers, and indications for this could be noted. For instance, Nobia can be considered to have had a rather satisfying overall profitability during the past years. However, as can be seen in table 2, the ratio has decreased each year, with a larger decreased between 2017 and 2018. When presenting EBIT margin in the annual report for 2019, which only is done including IFRS 16, the ratio first appears to have increased and the trend of decreasing profitability is perceived to be reversed. However, when scrutinising their financial numbers and calculating EBIT margin without IFRS 16 (see last column, table 2), it is clear that the ratio is fixed at 7.7 percent, which is the same level as 2018. The same can be noted for the leverage aspect. H&M did not present their leverage ratio with IFRS 16, and stated that they would not do so for the financial reports in the near future. As was mentioned, their equity ratio has decreased the past years. Thus, decreasing profitability or increasing leverage in a firm could influence disclosure choices. These findings highlight the importance of understanding firms' profitability and leverage trends in order to detect management incentives of only disclosing positive numbers.

However, although IFRS 16 effect, profitability, leverage and corporate governance can partly determine disclosure quality, it became somewhat apparent that these cannot be investigated in isolation from each other as it would not fully explain the firms' disclosure choices. For instance, Fenix Outdoor and SkiStar both have had quite high profitability and equity ratios lately. But while SkiStar presented financial measures both with and without IFRS 16, Fenix Outdoor did not. Similarly, while Boozt and Fenix Outdoor have similar disclosure patterns, their profitability level was not too similar. Fenix Outdoor have recently had a quite strong profitability compared to industry peers, whereas the measure for Boozt has been a bit lower. Considering that Boozt and Fenix Outdoor have rather different profitability ratios, but still share similar disclosure patterns, other factors than profitability might be more important in their case. Indeed, as can be noted from table 4, they both have a quite high equity ratio. Leverage therefore potentially could be a relatively stronger determinant for these two firms. This calls for further investigation about how combinations of determinants, such as profitability in combination with leverage, can influence disclosure. It is important to incorporate all possible factors and weigh the importance of each aspect in order to understand the relationship between these determinants and disclosure choices.

5.2.2 Disclosure choices and the implications for accounting quality and financial statement analysis

As was described, comparability as an accounting quality comprises of both comparison between firms, and within a firm over a time horizon (Runesson et al., 2018). By restating

APMs into numbers without IFRS 16 effect, time-series analyses are made possible as historical numbers commonly are disclosed without IFRS 16. But even though the majority of the companies are presenting recalculated financial metrics for the current year and enable readers of financial reports to make some sort of comparisons over time, this is not the most ideal approach. This is because a substantial part of the debts is disregarded in these financial metrics, as they are based on IAS 17. Hence, we argue that faithful representation is compromised when readers are not able to compare financial metrics with effect of IFRS 16 over time. In order to achieve both faithful representation and comparability, the financial metrics for the past few years have to be recalculated according to IFRS 16. But none of the firms recalculated historical metrics into including IFRS 16, as all applied the modified retrospective approach. However, an exception was ICA who recalculated numbers for fiscal year 2018. By stating the previous year's financial metrics according to IFRS 16, ICA makes it possible for their financial report readers to make faithfully represented comparisons between two years. This approach enables comparability, although for very short periods, while allowing companies to be transparent about their lease liabilities. Nevertheless, as can be established from ICA's five-year comparative graph for operating cash flow (figure 1), IFRS 16 had a quite large effect on the numbers for 2018. These effects certainly make it more difficult to assess the development of performance over time. Readers of financial reports will need to make their own adjustments when analysing numbers from more than two year backwards. But it is important to emphasise that these issues presumably only are issues during the period of the accounting standard transition. For instance, five-years after IFRS 16 implementation, ICA's operating cash flow graph will naturally only contain numbers with IFRS 16 effect.

In addition to time-series analysis, cross company analysis might also be distorted by the change to IFRS 16. Pardo and Giner (2018) suggested that with all leases being capitalised, performance should appear similar regardless of how the assets has been financed. However, it can be noted that the disclosure of APMs did vary. For instance, H&M presented the metric net debt/EBITDA without IFRS 16 effect, while Clas Ohlson, ICA, Internationella Engelska Skolan and Mekonomen included IFRS 16 effect for the same ratio in their disclosures. As a consequence of this variation, comparability between firms could become deteriorated during the transition period. If some firms present their APMs with IFRS effect and some presents them without, users of financial reports must be cautious and pay close attention to which financial measures include IFRS 16 and which do not. Also, it is important to note that financial metrics look better for the companies that have broken fiscal year, such as Academedia and SAS, since EBITDA is presented with IFRS 16 effect, while leverage ratios are presented without IFRS 16 effect. This is the case because IFRS 16 usually has a positive effect on the former and a negative effect on the latter. As mentioned before, the calculations of the metrics are different because the performance measures are based on trailing income statements, which means that both companies will not be able to report these financial metrics with IFRS 16 effect until fiscal year 2020/2021 as they have not recalculated historical metrics to be in accordance with IFRS 16. This again requires financial report readers to pay more attention to how APMs are calculated. Also, as regarding the segment reporting, only Axfood and New Wave Group had APMs with IFRS 16 effect. The fact that other companies

do not report segments according to IFRS 16 can have implications for the accounting quality since IFRS 16 is not consistently applied throughout the report. It is also important to note that different ways of disclosing information about segments can make comparisons between firms more difficult.

5.3 IFRS 16 influence on internal processes

IFRS 16 do not result in any actual change in the business, but merely changes the accounting of leases and should therefore not affect firm value (Penman, 2013). However, it could be noted that changed requirements in accounting standards might induce changes in internal processes. As was discovered, SAS decided to put more focus and resources into their exchange-rate hedging. The change in risk management at SAS could in a sense illustrate the value of showing good performance on financial reports. Firms seemingly consider that how they are displayed on financial statements is highly important, to the extent that they are ready to spend more resources in order to improve financial measures. In the case of SAS, the exchange-rate fluctuations have always been present, however, the difference is that the effects are now more apparent. As a response to this, firms can choose to take measures to mitigate the effects of adopting the new standard. The transition to IFRS 16 could thus cause changes in resource disposition. With more effort being put on hedging exchange-rate, the costs for SAS increase. Another interesting finding was that changes in financial reporting requirements have reduced the average cost of capital at Nobia due to the increased debt. If the same cost of capital is used for capital budgeting, it might have consequences for the assessment of profitability. This in turn can affect the investment plans in the company, which may also require more attention and resources by firms. This, in turn, could cause real effects on firm value. Therefore, IFRS 16 can indirectly alter value creation and by that affecting stakeholders' analysis of financial statement. Stakeholders need to be aware of that accounting standards could alter firm value, and actively pay attention to these type of disclosure in financial reports, in order to analyse and predict future performance.

Furthermore, an example of the behaviour Wang and Welker (2011) discussed, regarding timing of equity issuance in advance of standard change, could also be found. SAS declared that they issued bonds as a response to IFRS 16. As the risk of default partly influences the price of bonds, and IFRS 16 increases financial risk, it can be considered that issuing bonds before the implementation is more beneficial. This finding supports the suggestions that information asymmetry increases in conjunction with standard transitions (Wang and Welker, 2011). However, it is important to reckon that SAS actually was transparent regarding this matter. The information was stated in the annual report and investors could easily retrieve this information. It can therefore instead be suggested that it is those firms that do not disclose this type of information that stakeholders should be cautious about when conducting analyses.

5.4 Influence of IFRS 16 on performance evaluation

All companies have some type of targets that are used to evaluate performance. Since IFRS 16 has led to changes in several key financial metrics, it has also affected control activities in

the organisations. As we have seen, there are mainly two methods that can be used to deal with IFRS 16 when it comes to performance evaluation. Five companies have adjusted or at least planned to adjust their targets that are used for evaluation of firm performance, while seven other companies have chosen to report targets without the effect of IFRS 16. The advantage of presenting targets excluding IFRS 16 effect is that the targets are unchanged, and stakeholders can be certain that the evaluation will be unaffected by the change in the accounting standard, assuming that the performance is also measured without IFRS 16 effect. Because, as might be expected, it can be very problematic if the targets are defined without IFRS 16 effect while the performances are measured according to IFRS 16. However, adjusting the targets could also be beneficial as measures with IFRS 16 effect should, according to IASB, reflect the business better. Although, there is a risk that the adjustment could be done unfairly when revising targets. For instance, companies can set lower targets consciously so they can achieve the targets easier and meet the expectations of stakeholders. IFRS 16 can thus be used as an excuse to adjust the targets, which may mislead stakeholders in their estimation of firm value. Moreover, while Nobia's leverage targets are measured without IFRS 16 effect, their profitability target is measured with IFRS 16. This creates an inconsistency in how fulfillment of financial targets is evaluated and could complicate stakeholders' evaluation of target achievement in firms. These issues can also be related to what Pope and McLeay (2011) and Wang and Welker (2011) described, that information asymmetry could be especially exploited during IFRS transition. A third method that can be used to deal with performance evaluation, which is less popular among the companies, is illustrated by Byggmax who changed their target from EBITDA to EBITA. In addition to the change of measure, they also made changes to the target level. Considering that ESMA (2015) advocates consistency for APMs, this change of target measure can result in that accounting quality decreases.

Interestingly, even though most companies adjusted the targets at firm level, the targets for bonus programmes were commonly not changed and performance was instead evaluated based on measures without IFRS 16. Joos and Leung (2013) suggested that if firms perceive standard changes to be enhancing quality of measures, these will be more extensively used in bonus programmes. Bearing in mind that there were firms, such as Fenix Outdoor, who chose to maintain old targets and instead measure performance with numbers without IFRS 16, it indicates that some firms might not consider IFRS 16 implementation to increase the quality of financial measures. A plausible explanation for the bonus programmes and evaluation remaining unchanged is that firms strive to prevent management to act opportunistically when asymmetrical information is likely to be present.

6. Discussion

In order to understand how IFRS 16 affects the financial performance and position of the firms, disclosure about the effect of IFRS 16 on financial metrics is needed. However, as was shown in table 2, many companies have chosen to not recalculate some of their performance measures. Therefore, we attempted to make our own calculations of those missing metrics to

see if it is possible to compute them by ourselves. We managed to calculate all the metrics except for those that use trailing numbers in their calculations (see table 2). Although all information needed was available in the financial reports, the information was dispersed in different parts of the report which made it difficult and time consuming to find all the necessary information. Important to mention is that leasing that previously were categorized as finance leases have no effect on the restatements of the financial metrics because they have always been recognized as assets on the balance sheet, even prior to IFRS 16. This means that the recalculations of some measures such as equity ratio and ROE can be inaccurate if the companies have finance leases that they do not specify in their financial reports, because it is presented as a lump sum incorporated in the total right of use assets. Along the same line, if the amount of right of use assets that have been reclassified from certain items, such as intangible fixed assets, is not disclosed in the financial reports, it will be difficult to know how much of the asset increase that is due to IFRS 16, which can lead to incorrect recalculations of for instance ROA. For measures such as EBIT and EBITDA, information about the depreciation costs and interest expenses that are attributable to operating leases is needed in order to make accurate recalculations. But this information might not be available if the expenses for operating and finance leases are presented as a lump sum. It is therefore especially important to pay attention to all the details regarding what the numbers are composed of. However, under the assumption that the amount of finance leases is small and that all reclassifications of right of use assets are specified in the financial reports, the deviations are insignificant. In our case, this was less of a problem since no companies among those we made recalculations for had a material amount of finance leases. This means that when information about the effect of standard changes on APMs is not disclosed, users of financial reports should in most cases be able to make their own calculations. However, it could be slightly cumbersome while it also is necessary that some fundamental information actually is available in the financial reports. One prerequisite is that definitions of APMs are given, as the way APMs are calculated many times varies between firms and there is no solid definition. It is important to understand how the measures are calculated in order to make correct comparisons. A second prerequisite is that a rather deep understanding of how IFRS 16 affects the accounting is required to make these calculations since there are no clear guidance on how to recalculate the measures.

All in all, we believe that analysts and professional investors who have sufficient knowledge in accounting and the new standard will not be affected that much by companies not recalculating all measures as they can utilise information from the financial statements. Whereas for stakeholders that are not processing financial report information on a frequent basis, more transparency and more comparable numbers could be quite necessary. Nevertheless, the fact that it is rather cumbersome and time consuming to make own recalculations, accounting quality could deteriorate to an extent if no recalculations of APMs are presented by the firms even if there would be sufficient knowledge among readers of financial reports. In our study, we have presumed that making recalculations induces cost. Whether this cost is large or small is less clear. But it can be established that it is a cost that do need to be accounted for, either by the firms or by their stakeholders, depending on who it

is that perform the recalculations. Thus, we believe that differences in disclosure need to be considered despite that own recalculations many times are possible to carry through.

7. Conclusion

The initiating of new accounting standards aims to enhance accounting quality in a theoretical sense, however, considering that implementing standards is quite a process, several implications for disclosure might arise at the transition. This study has explored various aspects associated with accounting standard implementation and has the purpose of examining how transition to IFRS 16 might influence the preconditions to make adequate financial statement analysis. Our findings show that accounting quality, particularly transparency and comparability, is influenced by the level of disclosure firms make about the effect of IFRS 16. For instance, we could establish that historical numbers rarely are recalculated into including IFRS 16. In addition, even though a majority of firms present the effect of IFRS 16 on their APMs, it was clear that there exist substantial variations in the scope of restatements. While some firms recalculated in essence all APMs, others presented the effect of IFRS 16 more inconsistently and, for instance, only showed the effect for leverage ratios. If companies disclose in different ways, comparisons within and between companies become difficult. However, this mainly affects those stakeholders who do not have sufficient knowledge of how IFRS 16 affects the accounting as they might find it difficult to make their own calculations of the missing metrics. Furthermore, we could see that the amount of information provided is influenced by several factors. We found indications of that the costs and benefits of supplying the information, the firm's profitability, leverage, corporate governance and the actual impact of the new standards all potentially influence the level of disclosure made in financial reports. This ultimately affects the preconditions for conducting analysis of financial statements. Moreover, we noted that internal activities often are altered due to the transition to IFRS 16. We found potential evidence of that management incentives could become prominent during transition, with firms exploiting the increased information asymmetry that is associated with implementing new accounting standards. It was found that the transition to IFRS 16 for example can lead to increased borrowings. Therefore, disclosure regarding what actions firms take when implementing new standards is especially valuable for readers of financial reports during this period. Furthermore, financial targets and incentives programmes are also influenced, but in different ways. While targets often were revised, bonus systems often were not. This calls for close attention of how performance is evaluated as well as what possible management incentives might be presence. As a financial report reader, it is important to have an awareness of how these aspects are managed in order to understand the achievement of targets and to make correct analysis. Finally, our results show that the new leasing standard may have led to new allocation of resources in the organisation, which may have an indirect impact on the firm value. If firm value changes as a result of IFRS 16, analysts do not only need to understand the effects on accounting numbers, but also, they need to understand how resource disposition changes in order to make correct valuations.

In conclusion, we argue that IFRS 16 optimises the preconditions for financial statement analysis by distinguishing between value generating and non-value generating activities, and by improving the accounting quality through enhanced transparency and long-term comparability. However, the usefulness of IFRS 16 is somewhat offset by the decreased ability to perform trend analysis and financial ratio analysis in the short term, as the disclosures regarding IFRS 16 effects are quite inconsistent among the studied firms. Through this study, we have gained insights into choices firms can make in the disclosure during the transition to IFRS 16. By exploring how transition to a specific accounting standard is disclosed in firms' financial reports, we contribute with new insights to the field of accounting quality during adoption of new standards. In contrast to much of prior literature, we have emphasised a specific standard change instead of an accounting regime change, which we believe is of great value for practitioners in order to use financial reports optimally, but also for researchers as this field needs more investigation and our paper can bring attention to accounting standard transition and its related implications. Highlighting these matters could raise awareness of that disclosure quality associated with transition to new standards is an important aspect to consider in order to achieve improved overall accounting quality. Considering the many factors that can influence the preconditions of making financial statement analysis at transition, it can be established that disclosure quality is of particular importance during implementation. Especially stakeholders and standard setter need to be aware of this issue.

Our endeavour was to highlight possible issues regarding accounting standard transitions that can be investigated further. Several potential areas for future research were found. Firstly, we could find support for that factors such as profitability, leverage, corporate governance and the direction of standard effect could influence disclosure quality. However, we were not able to detect which factors that are most significant. Studying combinations of these influential factors, for a large selection of companies, in order to see the relative importance of them could provide useful insights to the prediction of firms' disclosure choices. Alternatively, a study where interviews are conducted with preparers of financial reports would also be insightful in order to understand the reasoning of disclosure decisions more in detail. Secondly, it was apparent that financial targets have been altered for many companies. We believe that interesting findings could be discovered by conducting an in-depth study of how the evaluation of company performance has been influenced by IFRS 16. What could be looked into more closely is how targets have changed, how the evaluation is made and the logic behind these choices. Interesting is also to investigate how changes in the performance evaluation, due to accounting standard changes, could affect the motivation of employees. Thirdly, examining corporate initiatives taken to reduce the impact of accounting effects needs more investigation in order to understand management incentives. This kind of study would contribute with new knowledge regarding how companies respond to changes in accounting and how their incentives can be detected. Lastly, it has been revealed that the cost of capital could be affected by IFRS 16. The increased liabilities reduce the average cost of capital as debt is cheaper than equity. If the same cost of capital is used for both financial accounting and management accounting, IFRS 16 can have consequences for investment calculations and other decisions made based on it. A suggestion for future research is

therefore to investigate how new financial reporting requirements may influence decision-making in the organisation.

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Appendix A

List of companies from Large cap and Mid cap within consumer industry at Stockholm Nasdaq, with the effect of IFRS 16 on balance total.

	Company	**IFRS 16 effect on balance total (Increase in right of use assets/Total assets)**
1	AAK	3%
2	AcadeMedia	72%
3	Autolive	Not applicable
4	Axfood	48%
5	Betsson	1%
6	Better Collective	2%
7	BHG Group (Bygghemma)	7%
8	Bilia	22%
9	Bonava	2%
10	Boozt	25%
11	Bulten	10%
12	Byggmax	39%
13	Catena Media	2%
14	Clas Ohlson	53%
15	Cloetta	2%
16	Dometic	2%
17	Duni	4%
18	Dustin	5%
19	Electrolux	3%
20	Essity	2%
21	Evolution gaming	9%
22	Fenix Outdoor	28%
23	Gränges	6%
24	H&M	47%
25	Haldex	12%

26	Husqvarna	3%
27	ICA	20%
28	Internationella Engelska Skolan	190%
29	JM	3%
30	K-Fast Holding	0%
31	Karnov Group	3%
32	Kindred	10%
33	LeoVegas	4%
34	Mekonomen	19%
35	Midsona	5%
36	Mips	3%
37	MTG	0%
38	Nent Group	7%
39	NetEnt	20%
40	New Wave Group	18%
41	Nobia	35%
42	OPUS	7.8%
43	Pandox	5%
44	Qliro Group	3%
45	SAS	50%
46	SCA	2%
47	Scandi Standard	8%
48	Scandic Hotels Group	140%
49	Securitas	6%
50	SkiStar	16%
51	Swedish Match	2%
52	Thule	2%
53	VBG Group	4%
54	Veoneer	Not applicable