IMPLEMENTATION OF IFRS IN FINLAND AND IN THE UK

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ABSTRACT

This thesis is a multiple case study that examines the harmonisation of financial reporting practices under International Financial Reporting Standards (IFRS) among listed companies in the United Kingdom (UK) and Finland. The main goal of the study is to analyse whether national differences still exist in financial reporting despite the adoption of IFRS by the European Union for listed companies. The study is limited to selected accounting standards in IFRS. This thesis is conducted as a project for an auditing company.

Annual reports issued by three companies from both countries are compared to see whether or not differences still exist in reporting practices. The study focuses on possible differences in asset valuation and transparency in reporting by analysing a number of accounting issues in chosen areas. Based on literature and earlier studies on the topic, these areas are expected to show differences.

Issues in international accounting and historical reasons causing differences in national accounting systems are discussed. Literature suggests that accounting in the UK is more optimistic and transparent than in Continental Europe. In Continental Europe external reporting has been less optimistic and more secretive due to historical differences in ownership structures.

The study is conducted by comparing and analysing qualitatively the accounting policies and the way they are reported by the case companies. The differences in reporting practices regarding valuation and transparency are illustrated by placing the companies in the accounting classification model of Gray (1988). The Finnish companies analysed in the study are Nokia, Cargotec and Huhtamäki. The UK companies are Vodafone, Tomkins and Rexam.

The findings of the study suggest that UK accounting is less optimistic than is stated in literature. There are no differences in valuation of assets between the Finnish and UK case companies. Further, the findings suggest that the UK companies are more transparent in their reporting than the Finnish ones.

Keywords: accounting classification, asset valuation, impairment of assets, international accounting, International Financial Reporting Standards

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TIIVISTELMÄ

Tämä opinnäytetyö on vertaileva tapaustutkimus, joka analysoi kansainvälisen tilinpäätöskäytännön harmonisointia pörssiyhtiöiden osalta Suomessa ja Britanniassa IFRS-standardien vaikutuksesta. Tutkimuksen päämääränä on selvittää, onko maiden tilinpäätöskäytännöissä edelleen eroavaisuuksia siitä huolimatta, että Euroopan Unionissa on siirrytty IFRS-raportointiin pörssiyhtiöiden osalta. Tutkimus rajoittuu valittuihin IFRS-standardeihin. Tämä opinnäytetyö on toteutettu hankkeistettuna projektina tilintarkastusyritykselle.

Kolmen yrityksen vuosiraportteja molemmista maista vertaillaan tutkittaessa, onko raportoinnissa edelleen eroavaisuuksia. Tutkielma keskittyy tutkimaan mahdollisia eroavaisuuksia varallisuustyyppien arvostuksessa sekä raportoinnin avoimmuudessa tutkimalla valittuja laskentaperiaatteita. Kyseisillä alueilla odotetaan ilmenevän eroavaisuuksia kirjallisuuden sekä aiempien tutkimusten perusteella.

Kansainvälistä tilinpäätöskäytäntöä sekä historiallisia syitä kansallisten tilinpäätöskäytäntöjen eroavaisuuksiin käsitellään. Kirjallisuuden perusteella Britannian tilinpäätöskäytäntö on optimistisempaa ja läpinäkyvämpää kuin Manner-Euroopassa. Manner-Euroopassa laskenta on ollut varovaisempaa ja salailevampaa erilaisista omistusrakenteista johtuen.

Tutkimus analysoi ja vertailee kvalitatiivisesti laskentaperiaatteita ja sitä, miten niistä on raportoitu. Eroavaisuudet laskentaperiaatteissa arvostuksen ja avoimuuden suhteen havainnollistetaan sijoittamalla vertailuyritykset Grayn (1988) kehittämään laskentakäytäntöjen vertailumalliin. Suomalaiset vertailuyritykset ovat Nokia, Cargotec sekä Huhtamäki. Britanniasta vertailuyrityksiksi on valittu Vodafone, Tomkins sekä Rexam.

Kirjallisuudessa esitettyjen väitteiden vastaisesti, tutkimuksen löydösten perusteella optimismi ei ole tärkeä tekijä Britannian tilinpäätöskäytännössä. Tutkittujen varallisuustyyppien osalta arvostusperiaatteissa ei ollut eroavaisuuksia suomalaisten ja brittiläisten yritysten välillä. Toisaalta, tutkimustulosten valossa brittiläisten yritysten raportointi on avoimempaa kuin suomalaisten.

Avainsanat: laskentakäytäntöjen vertailumalli, varallisuuserien arvostus, arvonalentuminen, kansainvälinen tilinpäätöskäytäntö, Kansainväliset tilinpäätösstandardit

TABLE OF CONTENTS

GLOSSARY

Business segment	Components of the company in segment reporting, based on products or services with similar risks and returns
Cash Generating Unit (CGU)	The smallest identifiable group of assets that generates cash inflows that are independent of the cash flows from other groups of assets
FAS	Finnish Accounting Standards
Geographical segment	Components of the company in segment reporting, based on a particular economic environment, by location of assets or customers
Goodwill	In purchase of an entire business, goodwill is the excess of cost over the fair market value of the net assets acquired.
Historic cost model	The asset is carried at acquisition cost less accumulated depreciation and impairment losses
IAS	International Accounting Standard; predecessors of IFRSs, some of them still in use but are gradually being replaced by IFRSs
IASB	International Accounting Standards Board; an international and independent standard-setting organisation that develops a single set of international financial reporting standards, IFRSs

IFRS	International Financial Reporting Standard(s). A set of internationally acknowledged accounting standards issued by the IASB
Impairment of assets	Unplanned decline in the value of assets, separate from depreciation or amortisation. A sudden change in circumstances causes the value of the asset to decrease.
Intangible assets	Assets that exist but cannot be seen, e.g. copyrights, patents and goodwill
Revaluation model	The asset is carried at fair value of the asset less accumulated depreciation and impairment losses
Segment reporting	The results of sections of the company showing in the reports, separated according to the type of business or geographical area
Tangible assets	Assets that can be seen, such as buildings and machinery

1 INTRODUCTION

It has become increasingly common for shareholders to invest in foreign companies in order to reduce the investment risk through diversification of investment. Therefore the ability to understand and compare financial statements and financial reports between companies in different markets is vital for present-day capital investors as capital markets are becoming more and more global.

The harmonisation of accounting in member countries has been on the EU agenda for a long period; it has been mentioned already in the Treaty of Rome in 1958. Later on it received more attention in the Common Industrial Policy in 1970, which aimed at creating a unified business environment. (Nobes & Parker 2006, 223.) After that the EU has issued several Directives on accounting. The most important ones considering financial reporting are 4th Directive (1974) on formats and rules of accounting and 7th Directive (1978) on reporting consolidated accounting. These Directives brought the financial reporting significantly closer to each other in the EU member countries, even though substantial differences still remained. (Nobes & Parker 2006, 224.)

Since the Directives, the next significant step in harmonising the financial reporting in the EU was taken in 2005, when it became compulsory for all companies listed in a stock exchange in any member country to use International Financial Reporting Standards (IFRS) in their reporting for consolidated statements (Nobes & Parker 2006, 102). IFRS is an internationally used set of accounting standards developed by an independent organisation, International Accounting Standards Board. Therefore the financial reporting of listed companies in Finland and in the UK should be compatible by now, at least theoretically. However, because of differences in culture and laws and tax regulations, in practice there might still be certain differences that should be taken into consideration when analysing the financial reporting in the countries. Further, IFRS still provides optional methods for certain accounting issues and this means that in practice there might still be differences in the financial reporting. (Gordon, Roberts & Weetman 2005, 31.)

As IFRS became mandatory for listed companies in the EU for the financial year commencing on or after 1 January 2005 (Gordon, Roberts & Weetman 2005, 355), the financial statements of year 2007 should have overcome possible initial problems related to the transition from the national accounting standards to IFRS. None of the companies is preparing their financial statements in accordance with IFRS for the first time and therefore the quality of the financial reports should already be on a reasonably good level as companies have experience in using the new standards.

1.1 Objectives and limitations

The objective of the study is to compare financial reporting of listed companies in the UK and Finland using IFRS and examine if there still are differences in existence in financial reporting between listed companies even though same standards are being used. The study is conducted by analysing selected accounting principles used by six case companies. Particularly valuation of assets and transparency of reporting are observed. Gray's (1988) accounting classification model is used as a framework in comparing the differences. Gray's accounting classification model analyses the differences between different accounting systems and it focuses on cultural values in accounting. The model is explained in more detail in section 3.2. This study is conducted as a project for an auditing company that requests to remain anonymous.

This study restricts its analysis only to reporting under IFRS, non-listed companies that are still allowed to use national financial reporting standards are excluded from the study. Further, national accounting standards are only discussed in order to indicate reasons for differences in IFRS reporting. In addition, not all IFRS standards will be analysed in this study as the whole set of standards would be unreasonably extensive topic for a single study. The complete list of IAS/IFRS standards currently in use can be found in appendix 1.

The accounting policies analysed in the study are chosen based on critical issues where Finnish companies in particular have faced difficulties in IFRS reporting based on annual surveys conducted by the Financial Supervision of Finland (2006, 2007 & 2008). The reason why problematic issues particularly with Finnish companies are chosen is the fact that Finnish accounting practices are considered to differ more from IFRS than the UK practices. IFRS has been largely based on the UK financial reporting standards (Gordon, Roberts & Weetman 2005, 28). Therefore it is assumed that the practices that were difficult for Finnish companies would possibly show variances in the practices between the Finnish and the UK companies.

The purpose of the study is to analyse particularly issues in financial reporting that reveal differences in terms of optimism versus conservatism and secrecy versus transparency as defined in Gray's (1988) classification model, which is introduced further in section 2.5.2. This has an impact on the accounting policies chosen to be analysed.

Valuation of assets is chosen for analysing optimism versus conservatism. Three different asset classes are analysed where the companies are able to choose between two valuation methods, historic cost model and revaluation model. Historic cost model is considered to indicate conservatism or prudency in accounting whereas revaluation model indicates higher level of optimism. The models are discussed in more detail in sections 3.3, 3.4 and 3.5.

Disclosure of information is used for analysing secrecy versus transparency. Accounting issues which require disclosure of information and where management is able to use judgement in the content of the information disclosed are selected for this purpose. The issues analysed are segment reporting and impairment of assets. Especially allocation of goodwill into cash generating units (CGU) and information regarding sensitivity analysis is scrutinized.

The policies analysed and relevant standards in IFRS are:

- Valuation of assets
    - Valuation of property, plant and equipment (IAS 16)

  - Valuation of investment property (IAS 40)
  - Valuation of intangible assets (IAS 38)
- Information disclosure
  - Segment reporting (IAS 14 and IFRS 8)
  - Impairment of assets (IAS 36)
    - Allocation of goodwill into CGUs
    - Sensitivity analysis

As mentioned, the emphasis is on qualitative data as mainly accounting principles are analysed with minimal emphasis on the accounting figures. Therefore international financial analysis and financial indicators are outside the scope of the study. The study focuses on the underlying principles used in the accounting calculations, not the figures themselves.

The data is gathered from the public annual reports of the companies being studied. Interim reports are excluded from the study. In other words, the study is solely based on secondary data as the data gathered from the financial statements of sample companies in London Stock Exchange and NASDAQ OMX Helsinki. For the purposes of this study, these sources of data are the most suitable, as the purpose of the study is to analyse de facto accounting methods used. In other words, the purpose of the study is to analyse the actual practices used by the companies, as the regulations and available options are the same in both countries, as provided by IFRS and EU directives. Other sources of data are irrelevant for this study as the companies are expected to publish all the required information. Further, all the investors and other users of the statements are required to have access to the information at the same time.

The financial statements analysed in this study are the statements for the year 2007 due to the fact that all the case companies have not yet published their annual statement for the year 2008. As analysing and comparing statements from different years would affect the comparability of the statements, it is decided to exclude the statements for the year 2008. An exception is made in the case of Vodafone, whose financial period for the year 2008 ended on 31 March 2008 and therefore the period mostly overlaps with other companies' year 2007 period and therefore the 2008 statements are used for Vodafone.

However, in analysing the new standard IFRS 8 in segment reporting the reports for the year 2008 are included in the analysis, if the statements are published at a sufficiently early point of time in spring 2008. As the new standard will be compulsory for reporting with effect from 1 January 2009 but early adoptions have been made possible, the 2008 statements are included in order to analyse how many companies have decided to early adopt the new standard. It is also analysed, how the new standard changes the segments reported especially regarding transparency. The observation of the early adoption is considered to increase the relevance of the study and is therefore included.

1.2 Research methods

As mentioned earlier, the study is conducted by analysing the financial statements of companies listed in London Stock Exchange and NASDAQ OMX Helsinki. The companies from the UK are Vodafone, Rexam and Tomkins and the Finnish companies are Nokia, Huhtamäki and Cargotec, as Table 1 demonstrates. Nokia and Vodafone operate in the mobile communications industry. Tomkins and Cargotec are heavy engineering companies. Rexam and Huhtamäki operate in consumer packaging. The companies have been selected randomly but it is ensured that they operate in matching industries, as illustrated by Table 1.

TABLE 1 Companies analysed in the study

COMPANIES ANALYSED		
BUSINESS	FINNISH COMPANY	UK COMPANY
Mobile technology	Nokia	Vodafone
Engineering	Cargotec	Tomkins
Packaging	Huhtamäki	Rexam

The primary method used in this study is a multiple case study. The reason is that by having three samples from the both countries it is possible to receive more robust evidence about the reporting practices compared to a situation where only one company from each country would have been analysed. However, it would not be feasible to conduct a statistical analysis with a large sample of companies as the research topic is qualitative by nature.

According to Yin (2003, 47), the logic of using multiple-case studies is to expect either similar results or contrasting results for predictable reasons. In this case, it is expected that the results between the three Finnish companies indicate similarities with each other. Similarly, it is expected that the UK companies have chosen similar approaches. In contrast, the results between companies in similar industries in different countries are expected to be contradicting because of cultural differences in accounting. It should not be forgotten that all of these companies use exactly the same financial reporting standards, IFRS.

Although the study involves certain research assumptions, they are not hypotheses that are tested through a deductive study approach. Instead, the study is conducted with an inductive approach. The assumptions presented in the study are based on literature on the topic.

The basic assumption in the study is that the companies have interpreted IFRS in a way that reflects the past practices that they previously used under the national accounting standards. In other words, companies have chosen options provided in IFRS that allow them to make minimal changes to their accounting policies. According to a study by Ernst & Young (Cummings 2006), this has been the case throughout Europe; companies have implemented the new standards in a way that minimises the changes required in the transition from the national standards to IFRS.

1.3 Overview

This study begins by discussing issues in international accounting such as historical reasons for differences in national accounting systems. The harmonisation efforts by the EU are also explained, such as the accounting Directives and most importantly, EU-wide adoption of IFRS for listed companies. Differences in accounting traditions in Finland and the UK are also discussed as those differences are vital in understanding the possible differences in present-day IFRS reporting.

Classification models in international accounting context are discussed in this study. The emphasis is on the model designed by Gray in 1988 which focuses on accounting values and cultural issues in accounting. Gray's model is also applied in analysing the case study to illustrate the possible differences between the case companies. Another classification model designed by Nobes in 1984 is discussed as well as it approaches the accounting from a slightly different perspective compared to the one designed by Gray.

International Financial Reporting Standards (IFRS) are introduced with emphasis being on the standards that are scrutinised in this study. Those standards are related to valuation of different asset classes, accounting estimates, segment reporting and impairment of assets. Further, the criteria in selecting the standards for the analysis are explained.

The case part of the study begins with brief introductions regarding the case companies analysed. Further, detailed analyses on the asset valuation by the companies and on information disclosure regarding the selected accounting issues are presented. Finally, conclusions based on the findings are presented and the case companies are place in Gray's accounting classification model.

2 INTERNATIONAL ACCOUNTING

According to Nobes and Parker (2006, 25-46), the most important factors causing differences in accounting are culture, legal system, providers of finance, taxation, external forces and the accounting profession itself. Finance providers are closely linked to the patterns of share ownership in different countries. Nobes and Parker (2006, 11) mention that according to a study in 1999, in the UK the top 20 companies had the widest ownership base in the world. In other words, the companies are mainly financed by private shareholders. In contrast, Finland was ranked as the fifth highest country with companies having state ownership of 35 percent or more.

Significantly different ownership structures are likely to cause differences in the reporting between UK and Finnish listed companies. Generally, in countries dominated by shareholders, as in the UK, the financial reports are of higher quality than in countries dominated by lenders as in France, in Germany or by state ownership as in Finland. The reason is the fact that institutional investors, such as banks and the state have less need for published information regarding the company performance as they have better connections to confidential information than private investors. Similarly, in countries where stock exchanges and therefore private investors are the main source of finance, transparent reporting is crucially important as all the owners have to be reported openly regarding the company performance. Also in countries where institutional investors are prominent, the reporting is more oriented towards creditor protection. For example, capital reserves are more important than transparent reporting on performance and profitability of the business. (Nobes & Parker 2006, 29-32.)

Gordon, Roberts and Weetman (2005, 228) also state that it is reasonable to expect that culture may affect the way the rules are interpreted. These findings and arguments support the theoretical basis of this study. Moreover, Gordon, Roberts and Weetman (2005) state that the de facto issues or the practice can be considerably different even though the de jure or the accounting regulations have only few differences. In this study, there will be no de jure differences, but de facto differences are still expected. In other words, the rules used are the same for all the member countries but the ways they are interpreted can differ. For example, companies in a certain country can nearly systematically adopt a certain option provided in IFRS and at the same time, in another country companies prefer another option. Therefore in practice there still are accounting differences even though the rules are the same.

Nobes and Parker (2006, 4) state that "Differences in the accounting are the norm". In addition, they state that the adoption of IFRS in all the listed companies in the EU has reduced the differences of accounting but it has not abolished them. These arguments support the assumptions that differences exist despite the adoption of IFRS. Nobes and Parker also state that little evidence on harmonisation has been found between UK and French accounting despite of the earlier harmonisation measures of the EU (Nobes & Parker, 2006, 228). Also this suggests that the harmonisation between UK and other EU countries, including Finland, remains limited.

2.1 International Financial Reporting Standards

International Financial Reporting Standards (IFRS) is a set of accounting standards issued by The International Accounting Standards Board (IASB), which is an independent body that is not controlled by any government or organisation. The objectives of the IASB are to publish a single set of high quality global accounting standards, to promote the use of the standards and to bring about convergence of national standard and IFRS to high quality solutions. (Gordon, Roberts & Weetman 2005, 16-17.)

The present-day IASB was formed in 1973 and it was then called The International Accounting Standards Committee (IASC) and the organisation issued International Accounting Standards (IAS). The early standards were largely non-controversial as they were fairly general in nature and accommodated the accounting practices of the prominent accounting countries. In other words, the standards included a variety of optional accounting methods. Later on the IASC started to reduce the options in IAS in order to increase comparability of reports among users. (Gordon, Roberts & Weetman 2005, 25-28.)

In 2001 the IASC was succeeded by the IASB (Nobes & Parker 2004, 81). The new organisation started improving the standards and continued reducing the available options in them. The IASB also started gradually replacing the IAS with IFRS. (Nobes & Parker 2004, 103-104.) Thus, the present-day generic term IFRS includes the old IASs still in use and the new IFRSs that have been issued (Gordon, Roberts & Weetman 2005, 19).

2.2 Adoption of IFRS in the EU

An important aspect of the study is that the EU-wide adoption of IFRS in financial reporting took place only in 2005 and therefore there are not so many studies conducted on harmonisation after the adoption. The ones conducted focus on either the EU-wide adoption in general such as the study by the Institute of Chartered Accountants in England and Wales (ICAEW) (2007a) or on a single country such as Financial Supervision of Finland (2006, 2007 & 2008). This makes it relatively difficult to review the literature on the topic for this study, as comparative studies such as this one have rarely been conducted.

A study released by Ernst & Young in 2006 (from Cummings 2006) considered the adoption of IFRS in the EU a success, but added that there is still a long way to go before complete comparability in all aspects of financial reporting. There were issues that limit the success of IFRS adoption. Statements had retained a strong national flavour and the changes made to the accounting policies had been attempted to be minimised (Cummings 2006).

The EU ordered a study from the ICAEW on the implementation of IFRS in the EU after the adoption in 2005 (ICAEW 2007a). In the study the ICAEW sampled 200 publicly traded companies from various countries and analysed the implementation of IFRS and the first time adoption of the standards. In addition, the ICAEW consulted several regulators, preparers, users and investors for the report. According to the study, the adoption of IFRS has improved the quality of financial statements and made them more comparable across countries, industries and industry sectors. However, certain groups interviewed for the study argued that the adoption has mostly improved recognition and measurement whereas the value of increased disclosure requirements was disputed. (ICAEW 2007a, 6.) In addition, also this study referred to the local flavours found in the reports across the EU.

For their study the ICAEW interviewed also European regulators. According to them, the issues that should be improved by the companies were mainly disclosures regarding accounting policies and key judgements made by the management. (ICAEW 2007a, 7.) These issues are parallel to issues indicated in other studies, for instance the ones published by the Financial Supervision of Finland (2006 & 2007).

An interesting finding in the report by the ICAEW was that fair value accounting is far less common than expected. For example, only eight companies out of 200 had used fair value accounting for property and none had used it for plants and equipment. Only 23 companies used fair values for investment property and none of the companies analysed used them for intangible assets (ICAEW 2007b, 190). These findings strongly contradict to the portrait given regarding the UK accounting in accounting literature in general.

Also the Financial Supervision of Finland has researched the implementation of IFRS in Finland by conducting a study yearly since the adoption in 2005. In the first study analysing the 2005 statements the Financial Supervision of Finland concluded that the quality of the financial statements varied and several areas still needed improvements (Financial Supervision of Finland 2006). Certain areas of focus were also selected in the study based on the fact that the Finnish accounting regulation was significantly different from IFRS in the selected areas. These areas included business combinations, impairment testing of goodwill, segment reporting, share-based payment arrangements and fair values of investments

(Financial Supervision of Finland 2006). It was concluded in the study that especially notes to the accounts, segment reporting, information on impairment testing, information on share-based payment arrangements and information on fair value accounting were reported insufficiently among the sample companies (Financial Supervision of Finland 2006).

The consecutive studies conducted during the following years provided similar results with certain developments. In the survey regarding the 2006 financial statements the Financial Supervision of Finland (2007) concluded that the quality of reporting had improved. The Supervision still advised companies to make further improvements in the same focus areas as in the previous survey.

The findings of the latest survey in the 2007 financial statements were parallel to the earlier studies (Financial Supervision of Finland 2008). It emphasised the fact that impairment testing in current volatile business environment requires extensive use of estimates and assumptions. Therefore also the disclosure of these assumptions in the statements is vital in assessing the future performance and risk levels of the companies (Financial Supervision of Finland 2008).

It was also noted in the study that the impairment testing should take place on the level of cash generating units but was often tested on a higher level on which the impairment was not necessarily discovered (Financial Supervision of Finland 2008). In segment reporting the study drew attention to the fact that the new standard, IFRS 8, will bring significant changes to segment reporting. It is used from 1st January 2009 onwards but early adoption is possible. According to the standard, the segments are based on the internal reporting structure of the company. Therefore companies are likely to report more segments in the future than previously. However, it was criticised that only a half of the companies disclosed the impact on their reporting in their 2007 reports (Financial Supervision of Finland 2008).

2.3 Differences in Finnish and UK accounting

As mentioned earlier, Finland has the fifth highest level of state ownership in Europe (Nobes & Parker 2006, 11). This is connected to the Finnish economic history. According to Singleton (1998, 119), Finnish industry, especially metal works, developed rapidly after the World War II as the state was forced to pay reparation payments to the Soviet Union. The payments were made mostly in metal goods, engineering products, ships and electric cables. In order to develop the industry rapidly the Finnish state established an intensive investment programme and thus the state became a major shareholder in several corporations in Finnish industry.

Even nowadays the Finnish state owns or is a major shareholder in a number of companies, some of them listed in NASDAQ OMX Helsinki. The state is the major shareholder in the air carrier Finnair, the energy company Fortum and the oil company Neste (Prime Minister’s Office 2009a). The state has shareholdings also in Stora Enso, Metso, Ruukki, TeliaSonera and Sampo Group; all of which are listed companies and among the most prominent corporations in Finland (Prime Minister’s Office, 2009b). Altogether the state is a shareholder in 11 listed companies (Prime Minister’s Office, 2009a & 2009b). As stated earlier, according to Nobes (2006, 30-32) the prominence of institutional investors such as the state means it is likely that there is less information disclosed in the financial statements if compared to a country where outsider shareholders are more dominant, as in the UK.

These arguments are also supported by Näsi and Näsi (1998, 207-208). They stated that Finnish accounting legislation was changed in 1947 introducing standardized content and form. The main purpose was to make the statements easier to compare especially for the state authorities. Näsi and Näsi (1998, 206-207) also stated that the Finnish accounting tradition had been strongly influenced by foreign traditions, especially German until 1950’s. However, from the 50’s until the 80’s the American influences had become more dominant. They positioned the Finnish tradition “somewhere between American and German doctrines”.

As mentioned earlier, companies in the UK traditionally have significantly wider ownership base than in Continental Europe and businesses rely on private investors rather than banks or the state for finance (Nobes & Parker 2006, 30-32). Private investors do not have similar access to information as banks and other institutional investors. Therefore they expect to receive sufficient and unbiased information about the success and future prospects of their investments through financial reporting. That is the reason why reporting in the UK is more comprehensive than in Continental Europe including in Finland. (Nobes & Parker 2006, 30-32.) On the other hand, Gordon, Roberts and Weetman (2005, 456) estimate that in 2002 over 60 percent of equity in the UK was held by insurance companies and other institutional investors. However, they tend not to be involved in the management of the companies even though they are increasingly active in observing their investments.

Another important issue affecting the financial reporting is taxation. In the UK accounting for taxation is separated from the accounting aimed at reporting to the shareholders (Nobes & Parker 2006, 33). On the other hand, in Continental Europe the tax rules are included in the accounting regulation (Nobes & Parker 2006, 33). Because of German influence the same applies to Finland (Lawrence 1996, 70).

Accounting in the UK has long tradition and it has always been driven by professionalism. The accounting profession itself with its professional accounting bodies has set the accounting regulation, unlike in most of the European countries (Gordon, Roberts & Weetman 2005, 442). Therefore also professional judgement plays an important part in the UK accounting. This can be seen especially from a concept used in UK accounting, "true and fair view". This means that it is possible for accountants to depart from the accounting regulation, if this gives a more rightful view of the financial substance of the transactions. (Gordon, Roberts & Weetman 2005, 466.) In other words, it is possible to override the law and regulations if it serves the situation better. Due to the same fact and the fact that tax law is separate from accounting regulation, UK accounting can also be considered to be flexible (Gordon, Roberts & Weetman 2005, 474). Another important aspect of accounting in the UK is that it can be considered to be more optimistic when compared to most of European countries that tend to be more conservative. The most common argument supporting this view is that the UK accounting regulation permits companies to revalue their assets from historic cost (Gray 1988, taken from Gordon, Roberts & Weetman 2005, 474). UK accounting is also considered to be highly transparent due to the wide ownership base and strong equity markets (Gordon, Roberts &Weetman 2005, 474).

2.4 Accounting classification models

Cultural influences on accounting have been studied by researchers and several classification models have been established to group different accounting cultures together. Classification is an effective way of comparing and describing different accounting systems and grouping national systems together. It also helps in identifying difficulties in accounting harmonisation (Nobes 2004, 56-57). The classification models of Nobes (1984) and Gray (1988) are discussed in further detail.

2.4.1 Nobes' model

Nobes (1984) proposed a deductive hierarchical classification model in 1984 in which he classified 14 countries. In Nobes' model, the highest division in the classification is based on macroeconomic and microeconomic classes. In the micro class the accounting serves the needs of the company and in the macro class the emphasis is on the state and society as a whole. The two main classes further divided into subfamilies. (Gordon, Roberts & Weetman 2005, 216-218.)

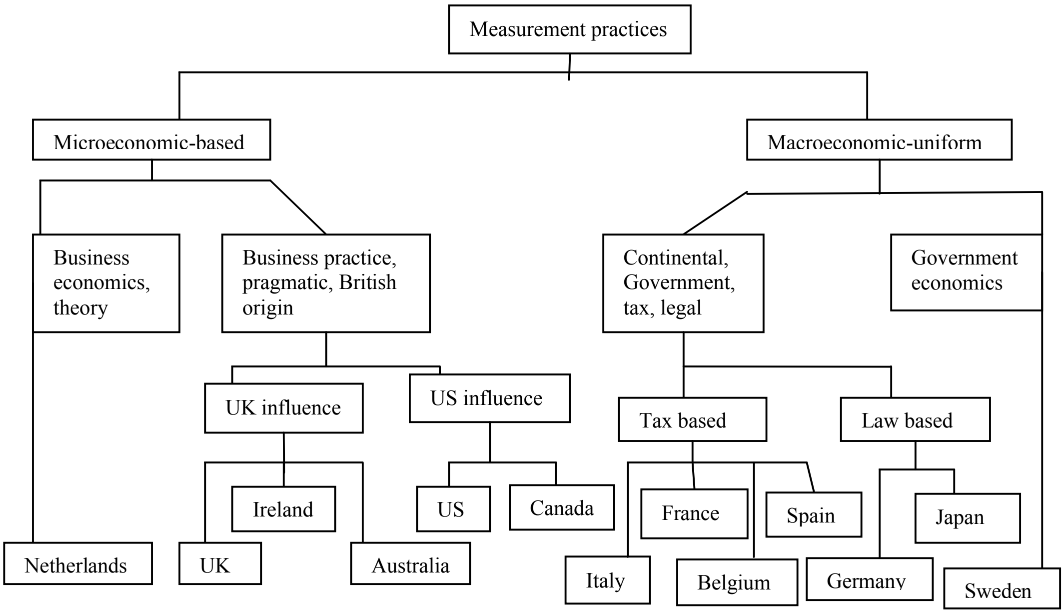

FIGURE 1 Nobes 1984 classification model (Roberts, Gordon and Weetman 2005, 217)

As Figure 1 illustrates, the UK and Sweden are classified into fundamentally different categories. Even though Finland is not included in the study, it can be assumed that Finland would have been located in the same family as Sweden or in any case in the macroeconomic group. Therefore this model illustrates the fundamental differences between Finnish and UK accounting based on the data used in the 1984 study. However, subsequently harmonisation has taken place due to the EU accounting Directives. In 1998 Nobes suggested a new classification model with new data and revised categories, where the macroeconomic and microeconomic classes had been replaced by strong equity class and weak equity class. (Gordon, Roberts & Weetman 2005, 218-220.) However, Finnish and UK accounting would still have been in different classes, if Finland would have been included in the analysis.

2.4.2 Gray's model

Another widely used classification model is the one created by Gray (1988) (Gordon, Roberts & Weetman 2005, 214-215). As illustrated by comparing Figures 1, 2 and 3, the model differs significantly from the one suggested by

Nobes. In his model, Gray classifies countries based on four different values that are organised into two two-dimensional maps, as illustrated in Figures 2 and 3. The model focuses more on the cultural aspects of accounting whereas Nobes bases his classification more on legal origins of differences. The first map in Gray's model as illustrated in Figure 2, measures the authority and enforcement of rules. The second map, in Figure 3, focuses on measurement and disclosure practices used in the country.

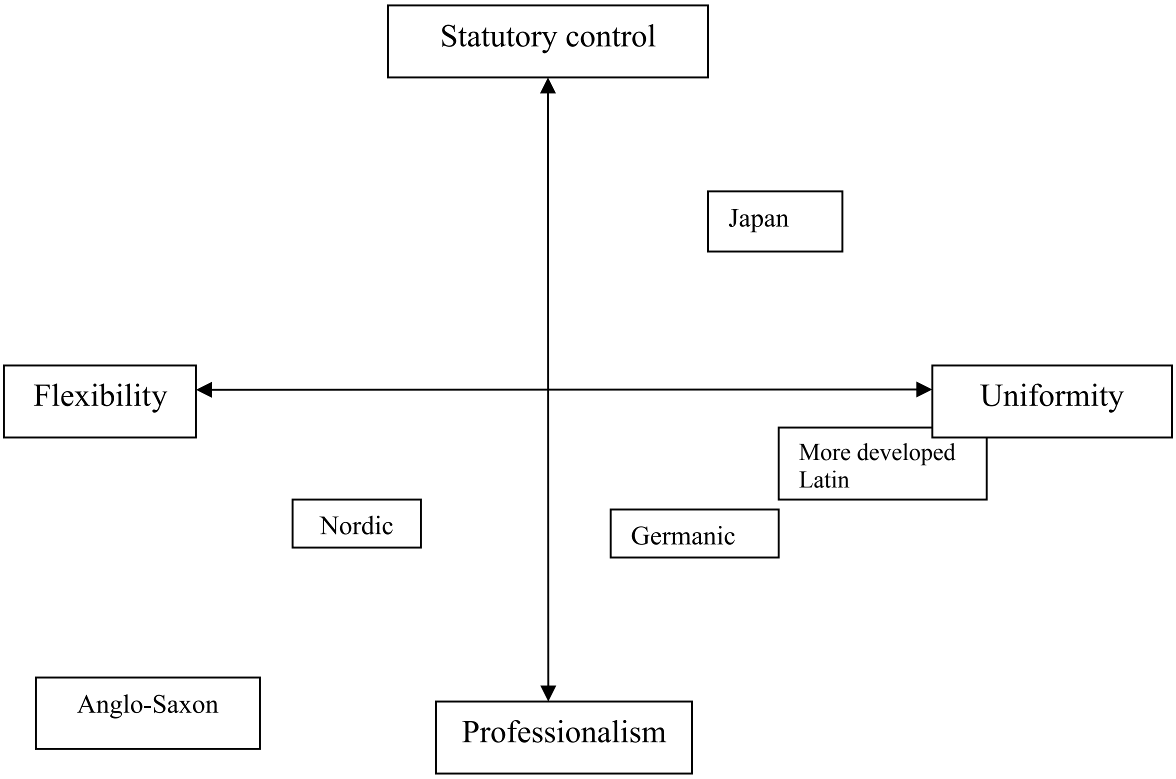

FIGURE 2 Gray's classification model, Authority and enforcement rules (Gordon, Roberts & Weetman 2005, 215)

As can be seen in figures 2 and 3 all the four values measured have two opposite ends. The values measured and the opposite ends are (Radebaugh, Gray and Black 2006, 45-48):

- *Professionalism versus statutory control*, in Figure 2, measures whether accountants are able to use their professional judgement or they are obliged to follow prescriptive and detailed requirements

- *Flexibility versus uniformity*, in Figure 2, measures the flexibility of the accounting regulations in being able to suit individual circumstances of companies or having strict rules to follow with high intercompany comparability.
- *Conservatism versus optimism*, in Figure 3, indicates the level of prudence and risk-taking in the measurement.
- *Secrecy versus transparency*, in Figure 3, indicates the level of disclosure or confidentiality in the accounting.

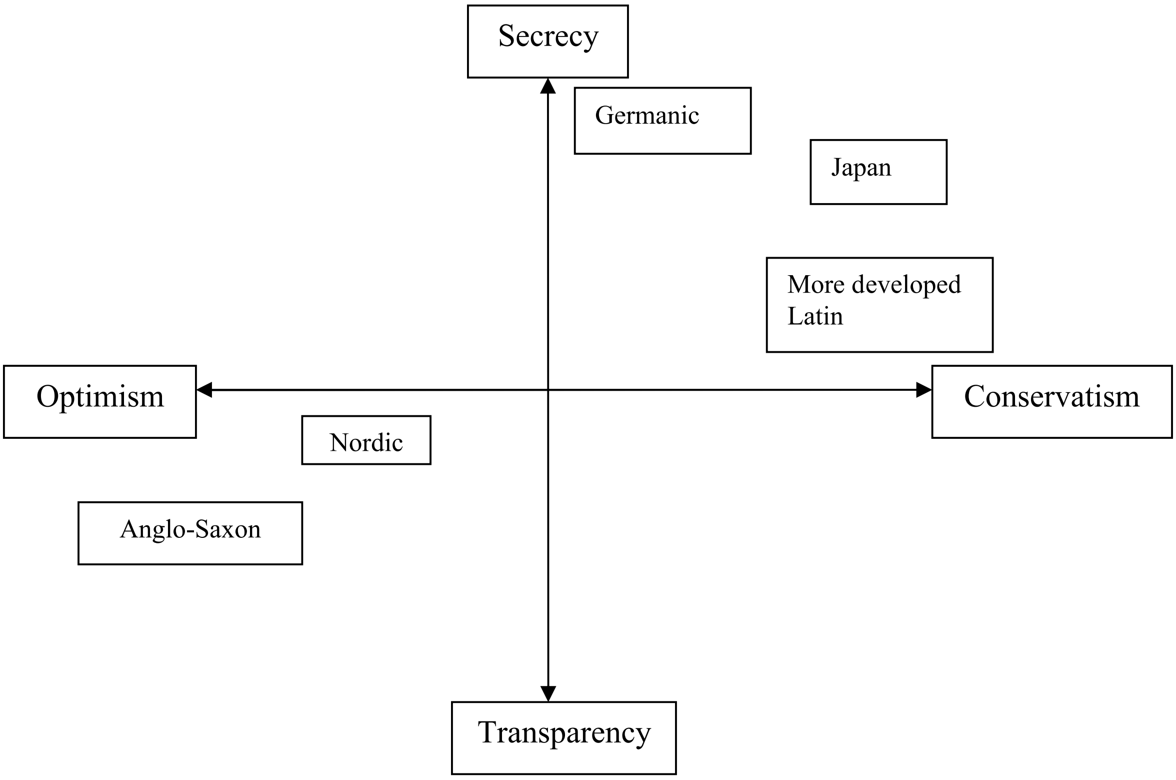

FIGURE 3 Gray's classification model, Measurement and disclosure practices (Gordon, Roberts & Weetman 2005, 215)

As seen in Figure 2 and 3, Gray considers Nordic and Anglo-Saxon accounting to be relatively close to each other, especially compared to German and developed Latin (e.g. French) accounting. However, Anglo-Saxon accounting scores higher in flexibility and professionalism. Further, Anglo-Saxon accounting is also more optimistic and transparent. An important notion is that accounting systems that are considered Anglo-Saxon, mainly UK and US traditions, are very different from each other (Gordon, Roberts & Weetman 2005, 459-460).

Though Anglo-Saxon and Nordic accounting appear to be close to each other in Figures 2 and 3, notable differences still exist. The two systems are only relatively close to each other in comparison to other accounting systems that are in the opposite end compared to Anglo-Saxon accounting, such as German and French (developed Latin).

As Finland per se is not included in Gray's analysis but Nordic countries are clustered together, it is unclear where Finland alone would stand in the model. In other words, there are differences between the accounting traditions of Nordic countries. Therefore the scores presented in Figures 2 and 3 are not necessarily the same as would be for Finland. For example, the essay of Kettunen (1993) suggests that Finnish accounting is somewhat different form the Nordic accounting in general but it is difficult to establish the direction on Gray's scale based on his work.

Several studies have used Gray's values as a basis and it has been criticised for the difficulty of measuring the values in an international environment (Gordon, Roberts & Weetman 2005, 186). In addition, Salter and Niswander (1995, 390) conducted a study of 29 countries using Gray's model and came to the conclusion that the theoretical framework works. However, they also suggested that additional factors such as level of development of the financial markets in the countries should be included in the model.

Gray's model is presented as it is applied to the case companies further in the study. As the objective of the study is to analyse differences in financial reporting due to cultural reasons, the model is considered the most suitable for the purpose. It analyses cultural aspects of accounting rather than the regulation. Other classification models focusing on accounting culture, such as Hofstede's (1984), analyse similar issues but are less advanced (Gordon, Roberts & Weetman 2005, 174-176). Nobes' models would not have been feasible as both Finnish and UK listed companies are using the same accounting system.

The aspects of secrecy against transparency and also optimism against conservatism as used in Gray's model provide an appropriate perspective for this study. However, the values presented in the first part of the model, flexibility versus uniformity and professionalism versus statutory control, are considered to be obsolete with IFRS. Those values are considered to be exactly the same for all the countries using the standards as they are set by the same institution, the IASB. However, the latter map was still considered relevant in illustrating cultural values in accounting.

3 ACCOUNTING POLICIES ANALYSED

In the following part IFRSs and IASs related to this study are explained. The purpose is not to give thorough descriptions of the standards but to introduce the standards relevant for this study on a general level. Also the underlying principles of these standards are introduced. Detailed accounting technicalities are excluded from the explanations in order to keep them understandable for non-specialist readers. The full list of IAS/IFRS can be found in Appendix 1.

3.1 Criteria for selecting the standards for the analysis

As stated in the objectives, valuation of assets is chosen for analysing optimism versus conservatism. The use of revaluation model reflects optimism and the historic cost model is associated with conservatism (Gordon, Roberts & Weetman 2005, 474). Policies in three different asset classes are analysed: property, plant and equipment; investment property and intangible assets.

Segment reporting, accounting estimates and impairment of assets are used to analyse secrecy versus transparency. The factors are chosen because the rules in IFRS differ from both UK and Finnish accounting rules (KPMG 2003a; KPMG 2003b). Further, as explained above, Finnish companies have had problems with these particular issues as IFRS requires extensive disclosures compared to the Finnish accounting regulation (Financial Supervision of Finland 2006).
Eventually the companies are placed in the second part of Gray's (1988) model to measure and illustrate their position in terms of conservatism versus optimism and secrecy versus transparency

3.2 IAS 16 Property, Plant and Equipment

The standard describes the accounting treatment for tangible assets such as property, plant and equipment. The items are used for production or supply of goods or services and are used for more than one accounting period. Future economic benefits are expected to arise related to the asset and it has to be possible to measure the cost of the asset reliably (IASB 2008b).

The standard provides two alternative accounting models regarding the measurement of assets. Companies can either use the historic cost model or the revaluation model. In the historic cost model the assets are carried at the initial cost less depreciation and impairment. In the revaluation model the value of the assets are re-valued on regular intervals (IASB 2008b).

3.3 IAS 40 Investment Property and IAS 38 Intangible Assets

IAS 40 describes the treatment of property that is not used directly in the production or in the conduct of business but mainly for earning rentals or capital appreciation. The standard requires that future economic benefits are associated with the assets and their cost can be measured reliably. The standard provides the same alternative accounting methods as IAS 16, historic cost model and revaluation model (IASB 2008c).

IAS 38 describes the accounting treatment of intangible assets. The definition of intangible asset is a “non-monetary asset without physical substance” (IASB 2008d). It also has to be separable from the company so that it can be sold or licensed or it has to arise from a contractual right. As with tangible assets, the standard requires that future economic benefits have to be associated with the intangible assets and their cost is possible to be measured reliably. Also with intangible assets it is possible to use either the historic cost model or the revaluation model (IASB 2008d).

3.4 IAS 14 Segment Reporting and IFRS 8 Operating Segments

The purpose of the standard IAS 14 is to describe the principles on reporting regarding the different business segments and geographical areas in which the company operates. In the standard the term business segment refers to a part of the company that provides products or services that have similar risks and returns. On the other hand, geographical segments mean geographical areas where the company operates; meaning that it either has assets or customers in the area. Companies have to choose either geographical or business segments as the primary basis of its segment reporting and the other one will be the basis for secondary segment reporting. The primary segments have extensive disclosure requirements whereas the requirements for secondary segments are narrower. Internal organizational structure should be used in identifying the basis of the primary segment reporting. (Gordon, Roberts & Weetman 2005, 59-60.)

According to the IFRS, the main source of the risk and return determines whether the primary segmentation is by business or geographical segments (Alfredson et al. 2007, 758). However, certain amount of management judgement is required in structuring the composition of segments (Alfredson et al. 2007, 757). Segment reporting provides important information for the users of the financial statements, particularly in supporting investment decisions and analyses (Financial Supervision of Finland 2006, 24). According to expert users of financial statements, segment reporting is one of the most important parts of financial statements. Yet, publishing too much about the segments would damage the competitive advantage over the competitors. (Gordon, Roberts & Weetman 2005, 59-60.)

IFRS 8 supersedes IAS 14 on annual periods starting on or after 1 January 2009 but it has been possible to adopt it earlier as well (Deloitte 2008, 43). The core principle of the standard is that “an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates” (IASB 2008e). The standard requires the companies to report financial and descriptive information about its reportable segments in a similar fashion as in the previous standard, IAS 14. The main difference in the new standard is that the reporting is not based on business or geographical segments. The basis of reporting according to IFRS 8 is the same basis as is used for reporting for the company management about the performance and allocating resources for different segments in the company (IASB 2008e).

3.5 IAS 36 Impairment of Assets

The standard describes the procedures for ensuring that assets are not carried on the balance sheet at values that exceed their recoverable value. In other words, companies are required to ensure that the value of assets on the balance sheet is not higher than what the assets are worth for the company when using them or when they are sold. As an example, machinery that was expensive at the point of purchase might have become obsolete as production methods develop. Therefore the company has to recognise an impairment loss as the recoverable value of the asset has reduced compared to the value on the balance sheet. (IASB 2008f.)

The standard requires companies to assess at the end of every accounting period if there are indications that an asset may be impaired. In that case the company is also required to estimate the recoverable value of the asset. The standard also requires companies to test the values of intangible assets and goodwill for impairment annually. If it is not possible to estimate the recoverable amount of an individual asset, then a cash generating unit (CGU) is the lowest possible level for measuring the recoverable amounts for those assets. (IASB 2008f.) The standard also requires that if a reasonably possible change in the assumptions used in the impairment testing calculation would cause impairment, that has to be disclosed. It also has to be disclosed, how large a change in the assumptions would cause impairment and what would be the value of impairment in that case (IASB 2008h, 1707). This procedure is usually called sensitivity analysis in impairment testing.

4 APPLICATION OF IFRS BY SIX CASE COMPANIES

The study is conducted by comparing annual reports of six companies of which three are listed in the London Stock Exchange (LSE) and three are in NASDAQ OMX Helsinki. The companies from the UK are Vodafone, Rexam and Tomkins and the Finnish companies are Nokia, Huhtamäki and Cargotec.

In order to make the comparisons more relevant, the companies operate in matching industry sectors. Vodafone and Nokia operate in the mobile phone and communications industry. Tomkins and Cargotec are heavy engineering companies specialising in related industries, mainly in industrial machinery and components. Rexam and Huhtamäki specialise in consumer packaging.

4.1 The case companies analysed

The fact that the companies compared operate in similar industry sectors will make the comparisons more relevant. It can be presumed that financial structure and capital intensiveness are generally in same categories between companies operating in same industries but in different markets.

The companies compared in the study are also roughly in similar size segments. This ensures that the companies have closely similar resources available for preparing their statements. In other words, the expenses of producing high-quality statements using IFRS are on a similar level compared to the turnover of the companies. Vodafone and Nokia are very large multinational enterprises even on a global scale. The annual sales of Vodafone in financial ended 31 March 2008 were approximately £35 billion or €45.5 billion using the exchange rate stated in the 2008 annual statement of Vodafone while the net sales of Nokia for the same year were approximately €51 billion (Vodafone 2008, 88; Nokia 2008b, 2). On the other hand, Tomkins and Cargotec are significantly smaller than Vodafone and Nokia. The turnover of Tomkins was approximately £2.9 billion or €4.2 billion according to the exchange rate stated in the annual report of Tomkins in

2007 and the turnover of Cargotec was approximately €3 billion for the same period (Tomkins 2008, 72; Cargotec 2008, 61). On the other hand, the turnover of Huhtamäki for 2007 was €2.3 billion and the turnover of Rexam was £3.6 billion or €5.3 (Huhtamäki 2008, 8; Rexam 2008, 72). Even though the turnover of Rexam was more than twice the turnover of Huhtamäki the companies are comparable as the cost of preparing IFRS statements in relation to the turnover is still in the same size class.

4.1.1 Nokia

Nokia is the leading mobile phone and device manufacturer in the world with approximately 38 % market share in 2007. The company is headquartered in Helsinki, Finland and it is listed in both NASDAQ OMX Helsinki and New York Stock Exchange. Even though the main products of the company are the mobile phones, mobile software and services are also vitally important for the company. The Services & Software business unit has strategic importance in developing consumer Internet services and enterprise solutions. (Nokia 2008a.)

Nokia also provides networks infrastructure solutions through Nokia Siemens Networks which is a separate company jointly owned by Nokia and Siemens but consolidated by Nokia in its financial statements (Nokia 2008a).

4.1.2 Vodafone

Vodafone Group plc is one of the leading mobile telecommunications companies in the world and is headquartered in Newbury, England. The company has operations in Europe, the Middle East, Africa, Asia Pacific and the United States and it uses the brand name Vodafone in most markets. However, in the US it uses the brand name Verizon Wireless. (Vodafone 2009a.) The company is listed in both LSE and NYSE (Vodafone 2009c).

The main business of Vodafone is the provision of mobile telecommunications services (Vodafone 2009c). Vodafone provides both communications technology and services and fixed broadband services. The company operates telecommunications networks such as GSM and 3G networks. Due to the move to the 3G networks, services are becoming increasingly important to Vodafone, as well as development of integrated mobile and PC communications services. (Vodafone 2009b.)

4.1.3 Cargotec

Cargotec Corporation is a company specialising in cargo handling solutions such as on-road load handling equipment, container handling equipment, heavy industrial material handling equipment and marine cargo solutions (Cargotec 2009a). The headquarters of the company are located in Helsinki, Finland and its shares are listed in NASDAQ OMX Helsinki.

Cargotec has divided its operations into three different business areas and it uses different brand names in all these areas. Its on-road load handling equipment business operates under the name Hiab. Kalmar specialises in container and heavy duty materials handling. Marine cargo equipment is provided under the name MacGREGOR. (Cargotec 2009b.)

4.1.4 Tomkins

Tomkins plc is a globally operating engineering and manufacturing company headquartered in London, UK and its main businesses are divided into Industrial & Automotive and Building Products (Tomkins 2009b). The company is listed in both London Stock Exchange and New York Stock Exchange (Tomkins 2009b).

Industrial & Automotive business group manufactures a range of systems and components for industrial and automotive markets. The business group has been organised into four segments; power transmission, fluid power, fluid systems and other industrial (Tomkins 2009c). The other business group, Building Products, manufactures air handling components, bathtubs, showers whirlpool baths, doors and windows and other building products and has been divided into two segments, Air System Components and Other Building Products (Tomkins 2009d).

4.1.5 Huhtamäki

Huhtamäki is a globally operating company that manufactures consumer and speciality packaging products. The company is headquartered in Espoo, Finland and it is listed on NASDAQ OMX Helsinki. The main products of the company include molded fibre products, release films, flexible packaging, food service paper cups, and other products based on paper forming technology. (Huhtamäki 2009a.)

As a globally operating packaging company Huhtamäki is able to provide similar packaging to its clients across different markets. The clientele of Huhtamäki includes foodservice operators, fast food restaurants, consumer goods markets such as ice cream, fresh food packers and retailers. Huhtamäki has also grown its business by acquiring a significant number of packaging brands in different markets. (Huhtamäki 2009a.)

4.1.6 Rexam

Rexam plc is the world’s second largest consumer packaging company and it is headquartered in London. It specialises in manufacturing of beverage cans and plastic packaging such as pharmaceutical packaging and packaging for personal care (Rexam 2009a). The shares of Rexam are listed in LSE, on FTSE 100 index.

The company also has an American Depository Receipt programme for US investors (Rexam 2009b).

The main business of Rexam is clearly beverage cans as 70 % of its sales come from the can business unit (Rexam 2009a). Further, the company is the largest can manufacturer in Europe and third largest in the US. It also operates in Asia and South America. The other business unit of Rexam, Plastic Packaging, provides solutions mainly for healthcare and personal care. The products include eye droppers, asthma inhalers, lipstick cases and fragrance closures. (Rexam 2009c.)

4.2 Findings

The study concentrates on analysing IFRSs that include optional treatment methods and therefore allow companies to choose their accounting practices. It is assumed that the companies choose accounting methods that resemble the practices used under the national accounting systems in their home countries. The main focus of the study is on accounting issues that reveal information about disclosure and measurement practices in the companies. The measurement and disclosure practices of the countries are reflected and analysed using Gray's (1988) classification model, particularly the latter part of the model that classifies accounting systems based on measurement and disclosure.

4.2.1 Valuation of assets

The policies used in measuring the assets of the companies are analysed for different classes of assets such as investment property; property, plant and equipment and intangible assets. There are two different methods available to be used in the measurement of assets provided in IFRS. It is possible for companies to use either cost model of measurement or revaluation model for all the mentioned classes of assets (Gordon, Roberts & Weetman 2005, 63-70). The chosen method has a significant impact on the reliability and relevance of the financial statements (Alfredson et al. 2007, 391-392). In the cost model the value of assets is carried at the acquisition cost whereas in the revaluation model the company carries the assets at estimated market prices. This means that the cost model keeps the information more reliable as there are no estimates used while the revaluation model includes more recent information and therefore makes the information more relevant (Alfredson et al. 2007, 391-392). It is expected that the UK companies are in favour of revaluation model because revaluation has been allowed in the UK national financial reporting standards also before the adoption of IFRS (Gordon, Roberts & Weetman 200, 468). The Finnish companies, on the other hand, are expected to be more likely to use the cost model because the use of revaluation model has not been permitted in Finnish Accounting Standards (FAS). The accounting policies that the companies have chosen based on the available options in IFRS regarding the valuation of assets has a significant effect on the comparability of the accounts and therefore it was one of the key areas of this study.

However, the analysis of the accounting policies chosen under IAS 16 Property, plant and equipment delivers unexpected results. Against the expectations, all the companies used the cost model for the asset classes. The findings are contrary to the original assumptions which have been mentioned earlier.

None of the companies analysed has any investment property in their balance sheets and therefore the accounting methods for IAS 40 Investment property could not be analysed. It could have been possible that some of the case companies would have chosen revaluation method for investment property. According to the ICAEW (2007a), the use of the revaluation model is more common for investment property than for other types of equity.

All the companies use historic cost model also for the intangible assets under IAS 38, which is less surprising than for other asset classes. Therefore the results regarding the intangible assets are parallel to the findings of the study by ICAEW (2007a) where none of the sample companies used revaluation model for intangible assets. However, it was expected that some of the UK companies could have used it for the same reasons as with property.

The findings of this study suggest that the use of revaluation in accounting in the UK is less common than is generally assumed, at least since the adoption of IFRS in listed companies. None of the companies analysed has chosen to use the revaluation model in any of the asset classes analysed. The study by the ICAEW (2007a) provided similar results as it was found that use of fair value accounting under IFRS is less extensive than is assumed. As a conclusion, the findings suggest that the differences between Finland and the UK in terms of optimism and conservatism are insignificant regarding financial reporting under IFRS.

4.2.2 Segment reporting

Another accounting policy analysed is segment reporting. As mentioned earlier, companies are required to report their financial information divided into either business or geographical segments according to IFRS. Companies are required to disclose extensive amounts of information for the primary segments whereas the requirements for the secondary segments are limited. Therefore this study focuses on the primary segments.

The reason that makes segment reporting significant for this study is the fact that both the FAS and the UK standards differ from IFRS in the rules concerning segment reporting. In the FAS there is limited requirement for segment reporting and no specific guidance for preparing it (KPMG 2003a). In addition, according to the Financial Supervision of Finland (2006), almost one third of the Finnish listed companies reported only one primary segment in their financial reports in 2005. This clearly indicates that segment reporting has been one of the difficult issues for the Finnish companies. It may even be possible that required disclosures in segment information have been earlier considered as sensitive information in the Finnish accounting culture. The report by the Financial Supervision of Finland (2006) stated that the companies had chosen usually business segments as the primary segments while geographical segments were used as secondary segments. Also under the UK standards segment reporting is less extensive than that required by IFRS (KPMG 2003b). Ideally, the analysis of the segment reporting is expected to reveal vital information about the levels of information that the companies are willing to disclose.

An important aspect is that both Cargotec and Tomkins have a number of divisions that operate in different markets that are not directly connected to each other. Therefore the analysis is expected to reveal whether or not the companies have chosen similar practices in disclosing their business and geographical segments. Cargotec has three divisions that do business under different brand names whereas Tomkins has two main divisions that do not operate in related industries. Also Huhtamäki and Rexam operate in similar industries and provide products that are related. Rexam has two fairly different groups of products in its range whereas the product range of Huhtamäki is more cohesive. Therefore the companies have different approaches to segment reporting.

TABLE 2 The basis of primary segmentation by company and number of segments identified

Segment reporting		
	Primary segments	**N:o of primary segments**
Vodafone	Geographical	11
Tomkins	Business	6
Nokia	Business	4
Cargotec	Business	3
Huhtamäki	Geographical	3
Rexam	Business	2

As Table 2 demonstrates, the number of segments reported in the UK companies is larger than in the Finnish companies with the exception of Rexam, which only reports two primary segments. It can also be seen in Table 2 that primary segmentation by business is more common among all the companies than by geographical segments. However, as all the companies analysed operate in an international business environment, geographical segmentation as the primary basis of segmentation would have been theoretically conceivable for the companies and would not have been completely without grounds.

The primary basis for segmentation for Nokia is by business segments. Nokia states that it has organised itself into four business segments:

- Mobile Phones
- Multimedia
- Enterprise Solutions
- Nokia Siemens Networks

However, Nokia announced in its annual report for 2007 that from 1 January 2008 the company adopts IFRS 8 and therefore the reported segments would change significantly. There would be only two reportable segments used, Devises & Services and Nokia Siemens Networks (Nokia 2008b, 19).

The segment reporting of Vodafone is largely based on geographic areas and as mentioned, the company has already implemented the new IFRS 8 Operating standards. Therefore the segment information is based on the internal management structures of the company (Vodafone 2008, 96). Vodafone has divided its segments into two groups, Europe and EMAPA:

- Europe
  - Germany
  - Italy
  - Spain
  - UK
  - Arcor
  - Other Europe
- EMAPA
  - Eastern Europe
  - Middle East, Africa & Asia
  - Pacific
  - Associates - US

What is surprising about the segment reporting of Vodafone is the fact that in its segment reporting it states that it only operates in one related business area, supply of communications services and products. However, in other parts of the annual report Vodafone presents separate additional revenue figures based on the nature of business. The revenue figures are disclosed for voice revenue, messaging revenue, data revenue and fixed line operator and other revenue (Vodafone 2008, 44). Due to the fact that Vodafone has already used the new standard IFRS 8, arguably the segment reports of Nokia and Vodafone are not directly comparable.

Cargotec uses business segments as the basis of primary segment reporting. The company states that the business segments produce products that are fairly different from each other and are subject to different risks (Cargotec 2008, 66-67). The company reports its business segments by brands as follows:

- Hiab
- Kalmar
- MacGREGOR

Tomkins, on the other hand, has divided itself into two groups, Industrial & Automotive and Building Products and the primary basis of segmentation is by business segments (Tomkins 2008, 84). However, the segmentation does not take place on the group level but the two groups had been further divided into segments as follows:

- Industrial & Automotive
    - Power Transmission
    - Fluid Power
    - Fluid Systems
    - Other Industrial
- Building Products
    - Air Systems
    - Other Building Products

Tomkins has a very transparent approach to segment reporting as arguably it could have used the division between Automotive & Industrial and Building Products as the basis of segment reporting. That gives investors more transparent information about its businesses. It can be speculated that the investors of Cargotec would receive more transparent information of the segments if they were further divided in a similar fashion as Tomkins has divided its two business groups.

In its 2007 annual statement Huhtamäki uses geographical segments as the primary basis of reporting (Huhtamäki 2008, 18). The company reports three segments and certain unallocated items:

- Europe
- Americas
- Asia, Oceania, Africa

In contrast, Rexam uses business segmentation as the primary basis of segmentation and therefore geographical segmentation as the secondary basis (Rexam 2008, 79 & 82). The primary segments are:

- Beverage Cans
- Plastic Packaging

The fact that Huhtamäki uses geographical segmenting is understandable as its product range is rather focused; packaging materials. Further, its products are mostly similar in all the markets where the company operates and therefore it is understandable that its risks arise mostly from geographical segments. On the other hand, Rexam has two fairly different products categories, Beverage Cans and Plastic Packaging and therefore the risks of these two product groups are different. For that reason segmentation by business segment is a sensible solution for Rexam. However, Beverage Cans are clearly the main product for Rexam as the sales of cans were £2.7 billion whereas the sales of the Plastic Packaging were only £880 million. The can business is largely undifferentiated across all the markets and therefore it might be in shareholders' interests to receive more geographic information than is required from the secondary segments in the IAS 14. On the other hand, the Plastic Packaging business range includes a large variety of products from pharmaceutical packaging to closures for beverages that are only loosely connected to each other and therefore it might have been in the shareholders interests that the segment would have been divided into multiple segments. When Rexam applies IFRS 8 in the future, it will be interesting to see how the segment reporting changes.

Based on the findings, it is possible to conclude that among the case companies, the UK companies are more transparent in their segment reporting than their Finnish counterparts. Only in one of three pairs of companies the Finnish company has more segments than its UK-based counterpart. Even though generalisations are hard to formulate without a larger sample of companies, the data suggests that the companies in the UK have a more transparent approach to segment reporting than companies in Finland.

4.2.3 Adoption of IFRS 8

Of the case companies analysed, only Vodafone has adopted the new standard on segment reporting for the year ended on 31 March 2008 (Vodafone 2008, 96). Vodafone announced already in its annual report for 2007 that it intended to early adopt the new standard if the EU endorses it, as it did (Vodafone 2007, 142). What is notable about Vodafone is that the company had already changed its segment reporting structure to meet the requirements of both IAS 14 and IFRS 8 at the same time for the 2007 annual report. Then, the company adopted the new standard IFRS 8 for the year ended in 2008 but it did not do any changes to its segmental reporting (Vodafone 2007, 142; 2008, 96). Thus the company was ready for the new standard if the EU would endorse it. Even if the EU would not have done so, it would not have affected the company. As the EU endorsed the standard, Vodafone was able to early adopt it immediately without changing its segment reporting.

In its 2006 report when Vodafone was still using the old standard for reporting, it used geographical segmenting as the primary basis of reporting with the segments Germany, Italy, Spain, UK, US, and Other mobile. In addition, Vodafone reported separately a segment Other operations in Germany and Other operations in other locations (Vodafone 2006, 79). It was stated in its financial statements that the company operates principally in one business segment, supply of communications services and products. In the 2007 and 2008 annual report the segments reported were the same and the company stated that it is reporting the segment information according to the internal reporting structures of the company (Vodafone 2007, 100 and 2008, 96). This indicates that the adoption of IFRS 8 does not necessarily bring great changes into the segment reporting practices in companies.

As mentioned earlier, also Nokia announced that it adopted IFRS 8 in effect from 1 January 2008. The interesting aspect of the adoption of the standard by Nokia is that the new standard significantly has reduced the number of segments reported. Before the adoption the company reported Mobile Phones, Multimedia and Enterprise Solutions separately but after the adoption, all these segments are merged into one. This is an unexpected development in Nokia's reporting. It also conflicts with other material provided by the company where Nokia gives strategic importance to services and software in its operations as is demonstrated by Nokia in brief (Nokia 2008a). In the report Nokia emphasises the importance of software, especially growing the offering of consumer Internet services and enterprise solutions. As a result, it could be expected that the management would have the multimedia business reported separately to itself. Again, the changes to Nokia's segments due to the adoption of IFRS 8 differ significantly from the development in Huhtamäki. As it can be said that Nokia's segment reporting moves to a more secretive direction, Huhtamäki reporting becomes more transparent.

As Huhtamäki published its financial reports for the year 2008 sufficiently early, it was decided to include the analysis of the new reportable segments in this study even though 2008 reports are not within the scope of this study in general. Even though the information is not comparable to all the other companies, it is believed to increase the relevance and timeliness of the study. Huhtamäki announced in its financial statements for the year 2007 that it applies IFRS 8 from 1 January 2008 onwards and therefore there will be changes in the segments reported (Huhtamäki 2008, 17).

In its annual report for the year 2008 Huhtamäki states that due to the adoption of IFRS 8, the company has revised its segments to reflect the internal management structure (Huhtamäki 2009, 18). The new segments are as follows:

- Flexibles and Films Global
- Rigid Europe
- Molded Fiber Europe
- Rigid and Molded Fiber Americas
- Rigid and Molded Fiber Asia-Oceania-Africa

The new reportable segments differ significantly from the previous geographical segments and they are not purely based on business or geographical segments. For products with less significance, Flexible and Films, the company presents a global segment. At the same time, for key products, molded fibers and rigids the company presents separate segments based on the importance of the market. In Europe, which is a key market for the company, it presents rigids and molded fibers separately whereas for the Americas it has combined both into one segment as the market is less significant. The new standard allows Huhtamäki to provide information more flexibly than was possible under the previous standard. Also investors receive more relevant information as the new segments reveal more regarding the strategic significance of the markets and how the company itself emphasises different market areas.

The developments in segment reporting among the three companies that have already adopted or at least revealed the changes deriving from the adoption of 8 appear to be contradictory. In Nokia's case the number of segments diminishes which is arguably an adverse development for investors. On the other hand, the number of segments reported by Huhtamäki has increased and the relevance of the segments also seems to have been increased. Finally, for Vodafone the segments have largely remained the same. Based on these findings, it can be concluded that it is extremely difficult to predict how the new standard will affect the segment reporting among different companies. Change depends greatly on the previous segments used and how closely they have resembled the internal reporting of the company. It is also possible that the openness and transparency of the management affects the segment definitions. Arguably, internal reporting structures can be restructured according to internal and possibly external needs. It is possible that the companies are deliberately altering the internal structures in order to justify more limited segment reporting and thus being able to reveal less sensitive information to shareholders and competitors.

4.2.4 Impairment of assets

In the views of the Financial Supervision of Finland, impairment of goodwill is not necessarily recognised if the impairment testing of goodwill is performed in CGUs that are on the same level as the segments (Financial Supervision of Finland 2007, 20). According to the Financial Supervision of Finland (2007, 20), it may indicate that the independency of the cash flows of CGUs has not been considered carefully. However, the Financial Supervision of Finland also states that the structure of business and how it is organised has a significant effect on the level at which impairment testing is performed (Financial Supervision of Finland 2007, 19). According to Haaramo (2008, 55), who participated in conducting the study, among Finnish listed companies the size of the company do not correlate with the number of CGUs.

In order to observe whether there is any indication that companies in Finland and in the UK have different approaches to impairment testing of goodwill, the levels of the CGUs used by the case companies were analysed. It is assumed in this study that allocating goodwill to CGUs that are on sub-segment level indicates a higher level of transparency in the reporting than if goodwill is allocated only to the segment level. However, if companies disclose detailed rationale regarding the reasons why goodwill is only on the segment level, it is considered not to indicate less openness compared to sub-segment levels. The analysis is based on 2007 financial reports and therefore segmentation is based on IAS 14 except for Vodafone which adopted IFRS already for that period.

Tomkins has allocated its goodwill to 14 CGUs that are below the level of the business segments. For example, the segment Other Industrial & Automotive includes 4 CGUs and the segment Air Systems Components includes 5 CGUs. The CGUs are generally in line with all the trademarks and brands that the company has within its segments (Tomkins 2008, 99). In contrast, Cargotec has used business segments as CGUs in impairment testing for goodwill (Cargotec 2008, 88). Therefore the goodwill has been allocated to three CGUs in comparison to 14 by Tomkins. However, Cargotec states that the MacGREGOR

CGU includes goodwill of Offshore Division, a new division in the segment created by acquiring two companies in 2007 (Cargotec 2008, 23). The goodwill of Offshore Division is tested separately for impairment despite it has been reported in MacGREGOR CGU in the reports (Cargotec 2008, 88).

Huhtamäki has allocated its goodwill into three CGUs that the company expects to benefit from the synergies of acquisition. These are North America, Rigid Europe and FFF Europe. In addition, smaller and less significant regional units have been combined into “Other units with allocated goodwill” (Huhtamäki 2008, 24). The CGUs are therefore different from both primary and secondary segments and goodwill has been allocated to CGUs that are below the segment level. Also Rexam has allocated goodwill into CGUs that are below the segment reporting level and also presents a full list of CGUs with goodwill in the notes to the accounts. Rexam’s Beverage Cans segment has been divided geographically into CGUs and the Plastic Packaging segment has been divided into Personal Care, Health Care and Closures. (Rexam 2008, 92.)

Nokia has allocated its goodwill for impairment testing into CGUs that are both below and on the level of segment reporting. Only two significant CGUs have been mentioned, Nokia Siemens Networks CGU is on segment level and Intellisync CGU is below, and the rest of the goodwill was allocated across multiple CGUs where the amounts are insignificant (Nokia 2008, 23). Similarly, Vodafone has presented its goodwill in CGUs that are below or on the same level as the segments (Vodafone 2008, 104). Vodafone states that there has been impairment of goodwill in Germany, Italy and Sweden during an earlier financial period. There is goodwill left in CGUs for Germany, Italy and Spain and in an unspecified group called Other (Vodafone 2008, 104). Both the large companies have very similar approaches to determining CGUs. They have included only small numbers of CGUs with goodwill despite their enormous company sizes.

The analysis of the case companies in general verified the statement that the size of the company and the number of CGUs do not correlate. This is the case for both Finnish companies and UK-based companies alike. Both Nokia and Vodafone have allocated significant amounts of goodwill into CGUs that are on the same level as their primary segments. In contrast, smaller companies from both countries, Huhtamäki from Finland and Tomkins and Rexam from the UK, have presented their goodwill in CGUs that are well below the level of their primary or secondary reporting. Of the smaller companies, only Cargotec tests its goodwill for impairment largely on the primary segment level.

Based on the findings it is difficult to formulate any generalisations regarding differences between the two countries analysed. However, as explained above, with the exception of Vodafone, the UK-based companies have presented slightly more detailed information regarding the impairment testing than their Finnish counterparts. Therefore it can be concluded that the underlying reason for this may be a more transparent approach to reporting than among the Finnish companies. However, the impact of different organisational structures cannot be excluded and therefore further research is required in order to validate the findings. Further, even though it might be expected that the larger companies, Nokia and Vodafone, would indicate a higher level of transparency, this is not the case.

4.2.5 Sensitivity analysis in impairment testing

Transparency or secretiveness of the companies is also studied by analysing information disclosure regarding sensitivity analysis in impairment testing as in IAS 36. As mentioned earlier in section 3.6 IAS 36 Impairment of Assets, the company has to disclose the key assumptions and the values used in impairment testing calculations. In addition, if a reasonably possible change would cause an impairment loss, the standard requires detailed disclosures regarding the values used in the calculations (IASB 2008h, 1706-1707 and 1818-1819)

Information on the sensitivity analysis and the assumptions and judgements used by the management in preparing the statements are important to investors. According to the Financial Supervision of Finland, many companies disclose only the minimum amount of information required by the standard and give only general descriptions of the assumptions used. Therefore it is not sufficient for investors to assess the reliability of the impairment test results. Some companies have presented information on how big changes could cause impairment losses, while others have provided less or no information on sensitivity analysis. (Financial Supervision of Finland 2007, 9, 11-12.) Also ICAEW concludes that there is still scope for improvement in disclosures relating to sensitivity analysis (ICAEW 2007b, 164).

Vodafone presents detailed disclosures regarding the key assumptions and the sensitivity analysis. The company provides information on individual impairment testing calculations on the two CGUs, Germany and Italy, where impairment losses could be possible if changes in assumptions took place. Vodafone discloses both the values used in the calculations and also the required change in assumptions for impairment losses to appear (Vodafone 2008, 105-106). In other words, Vodafone provides detailed disclosures on all the issues that are requires in IAS 36.

Nokia states general information regarding the assumptions used in the notes to the accounts (Nokia 2008, 18). Further, the company also gives estimated figures for growth rates and discount rates that have been used for the impairment testing calculations for two of the CGUs containing significant amounts of goodwill (Nokia 2008, 23). However, there are no figures given regarding the sensitivity of impairment testing for changes in the assumptions in Nokia's statements.

Tomkins provides both general descriptions and the figures of the assumptions used in the impairment testing. The company also reveals sensitivity information for the CGU that contains the largest amount of goodwill, Stackpole (Tomkins 2008, 99). Sensitivity information for the CGU is expressed by estimating how much the amount of goodwill would change if the discount rate or the operating margin would increase or reduce by one percentage point (Tomkins 2008, 99).

Similarly to Nokia, Cargotec provides general information on the assumptions used in impairment testing (Cargotec 2008, 71). Further, the company states the assumed discount rates and growth rates used in the calculations. The company also specifies that the greatest source of uncertainty in its impairment testing calculations is the estimated profitability. It is also mentioned in the notes that the result of the impairment testing is not sensitive to changes in discount rate and that according to the management; conceivable changes would not cause impairment losses. (Cargotec 2008, 88.)

Rexam provides general statements regarding the assumptions used in impairment testing. It also specifies the key assumptions used and the basis for the assumptions (Rexam 2008, 76 & 92). Also growth rates and discount rates used are provided (Rexam 2008, 92). However, Rexam does not provide any sensitivity information.

Huhtamäki also provides general information about the assumptions used in impairment testing and the basis of the values. Also discount rates and growth rates used in the testing have been provided (Huhtamäki 2008, 24). Regarding the sensitivity analysis, the company states that “sensitivity analysis around the base assumptions have been performed and management believes that any reasonably possible change in any other than Rigid Europe units’ key assumptions would not cause carrying amount of cash generating unit to exceed its recoverable amount” (Huhtamäki 2008, 24). The reason why Rigid Europe has been mentioned is the fact that it is the only significant CGU in which impairment losses of goodwill have been recognised.

The analysis of sensitivity information in impairment testing suggests that the UK companies provide more transparent information regarding the assumptions and especially the sensitivity of the assumptions to changes. Of three UK companies analysed, two provide detailed information on sensitivity to change in the estimates. None of the three Finnish companies analysed provide as detailed information as the two UK companies. Cargotec and Huhtamäki have mentioned that any conceivable changes would not cause impairment losses. As Cargotec has not recognised any impairment losses for the years 2006 and 2007 the statement is justifiable (Cargotec 2008, 88). However, as Huhtamäki has recognised impairment losses both for tangible assets and goodwill in 2007 (Huhtamäki 2008, 23), further disclosures regarding sensitivity analysis would have given a more transparent impression about the company’s approach to information disclosure.

4.2.6 Gray’s model applied to the case

The findings of this study are considerably different from the initial expectations. The practical differences in financial reporting between UK and Finnish companies are less significant than expected. Based on the evidence of this study it can be said that the harmonisation of financial reporting practices in the EU has been effective. It can also be said that the comparability between reports of companies from these two countries has significantly increased. In some instances the differences in reporting among companies from one country are greater than the differences between companies from Finland and the UK. However, differences still exist especially in information disclosure.

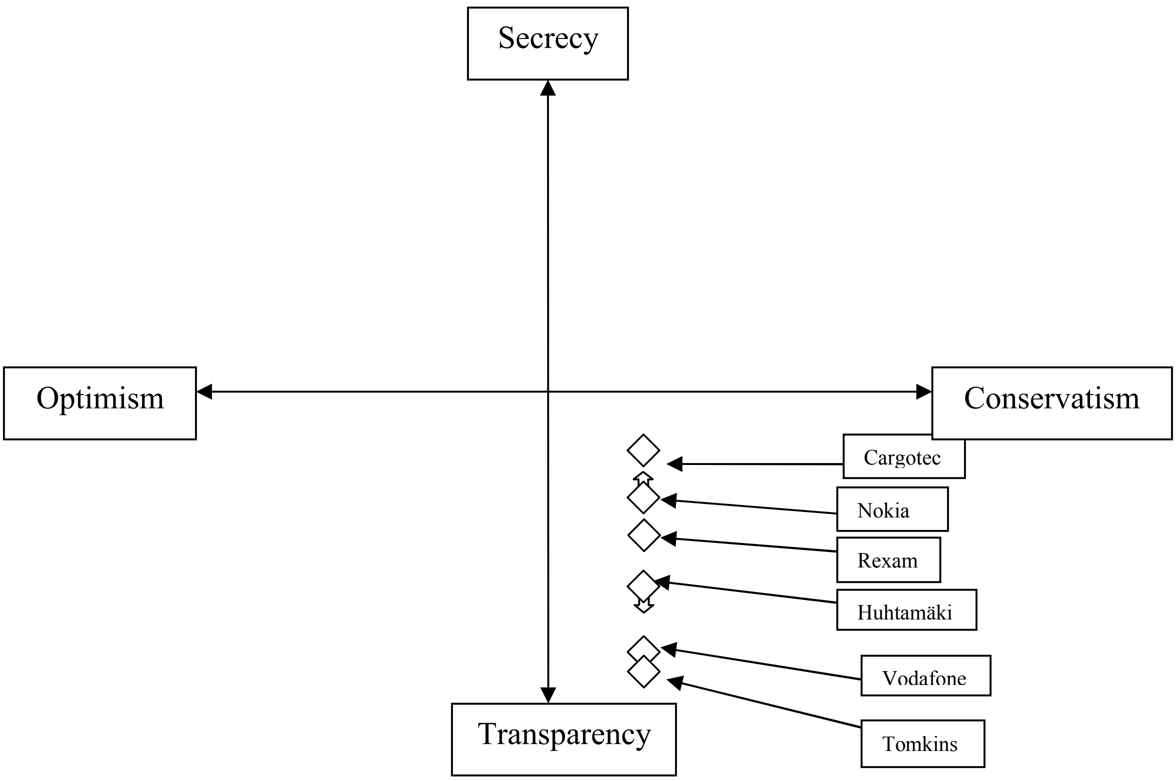

FIGURE 4 The companies placed in the latter part of Gray’s (1988) model

As a part of the study, the companies are also placed in Gray's (1988) classification model as illustrated in Figure 4. The locations of the companies in the model are significantly different from the locations of the UK and Nordic countries in the original 1988 model, as was shown in Figures 2 and 3. It should be noted that using the model requires a high level of subjectivity from the researcher and therefore the application of the model expresses only the views of the researcher, based on the findings of this study. It should also be remembered that the levels of differences between companies using IFRS in their reporting are minimal compared to the situation in 1988 when companies were still using national accounting systems. All the companies using IFRS would be on a small area in the figure if applied to the 1988 model.

Placing the companies in the Gray's (1988) model proves to be difficult and requires judgement. Firstly, the findings are different from what was expected and secondly, there are internal contradictions in the findings. The findings regarding asset valuation provided unexpected results. As mentioned earlier, the expectation based on literature was that companies from the UK would be optimistic and use revaluation of assets in their reporting. However, it is established that all the companies analysed both from the UK and Finland used the historic cost model for all the classes of assets analysed in the study. This suggests that companies from the UK are not as optimistic in terms of asset valuation as literature suggests, at least in IFRS reporting. In terms of transparency, it is difficult to identify any generally applicable country-specific differences in Finland and the UK. However, two UK companies are considered to be the most transparent. This suggests that the more transparent tradition in UK accounting culture is still causing visible differences in reporting compared to the situation among Finnish companies.

The greatest difference to the original model is that all the companies are located on the same level in terms of optimism versus conservatism. This can be seen in Figure 4, as all the companies are place on a single vertical line. This is due to the fact that none of the companies uses revaluation model for any of the asset classes analysed and therefore there are no differences in optimism among the companies. It is decided that the companies should be placed on the conservative side of the model as there is no indication of optimism among the sample companies.

The main differences between the companies are in terms of secrecy versus transparency. Tomkins is considered to be the most transparent of the sample companies, as can be seen in Figure 4. The company has a very detailed segment analysis and in addition, it has a large number of CGUs for impairment testing that is below the segment level. Tomkins has also a detailed sensitivity analysis included to the notes regarding impairment testing. In other words, Tomkins has included all the details that are analysed in this study.

As Figure 4 illustrates, Vodafone is placed close to Tomkins regarding transparency but with a slightly less transparent standing, due to the fact that the company has placed a large share of its goodwill in CGUs that are the same as the primary segments used. Even though it is fairly logical in the business environment in which Vodafone operates, it is still considered to indicate a slightly lower level of transparency than Tomkins. Besides that, Vodafone's reporting is considered to be on a very transparent level.

Also Huhtamäki is considered to represent a high level of transparency, even though the company does not quite reach the same level of transparency as Tomkins and Vodafone, as can be seen in Figure 4. The reason for the lower transparency is mainly the fact that sensitivity analysis is mentioned in the report but it is not presented in the notes. Further, Huhtamäki is also considered to be moving towards a higher level of transparency with the new way of segment presentation under IFRS 8. This has been indicated by the arrow in Figure 4.

Rexam is considered to represent a moderate level of transparency, as can be seen from Figure 4. The company reports only two segments despite its fairly diverse product range. However, the company presents an extensive list of CGUs in which goodwill has been allocated and all of them are below the segment level. Further, Rexam does not present information regarding sensitivity analysis either, which is considered to reduce its transparency.

Nokia is placed below moderate regarding transparency, as Figure 4 illustrates. Nokia's segment reporting is considered to be fairly extensive but reporting for goodwill does not appear very transparent as only two CGUs with goodwill are reported in detail, one of them being Nokia Siemens Networks which is on the primary segment level. In contrast to Huhtamäki, Nokia appears to be moving towards more secrecy with the new segment reporting under IFRS 8. As discussed earlier, this is due to the fact that the number of segments diminishes as Enterprise Solutions, Mobile Phones and Services & Software segments are merged into a single segment, Devices & Services. This has been illustrated by the downward arrow in Figure 4.

Cargotec is considered as the least transparent company of the case companies analysed, as can be seen in Figure 4. The company reports three segments which are considered logical regarding the business structure. However, for impairment testing the company allocates its goodwill to CGUs that are on segment level with only one exception, the CGU for Offshore division under MacGREGOR. Arguably, the CGU could have been further divided as it includes two recent acquisitions. Further, the only reference to sensitivity analysis in Cargotec's impairment testing is the notion that "the outcome of impairment testing is not particularly sensitive for changes in discount rate" (Cargotec 2008, 88).

Gray's (1988) model is still considered useful in analysing differences in cultural accounting values also in reporting under IFRS. It is considered that despite being subjective, the model is illustrative in identifying differences in cultural accounting values. However, its application and adaptation proves difficult especially as measuring differences from qualitative data is challenging. Therefore the model has to be liberally adapted. Valuation as analysed in this study does not reveal differences in terms of optimism versus conservatism. Possibly other issues, such as financial instruments, profitability or capital reserves would reveal more about how optimistically companies approach their financial reporting. Nevertheless, it is considered that values measuring transparency and secrecy are able in providing results and illustrate differences in cultural accounting values.

4.2.7 Areas of future research

The study only analyses a small fragment of the possible areas where differences in accounting practices possibly occur. Therefore there is a possibility that there are differences in other accounting practices not analysed in this study. Only a small sample of companies from both countries is analysed and therefore there is the possibility that a new sample would reveal new differences. Also the fact that practices vary between industries should not be ignored. It is possible that the companies analysed in this study represent the common practices in their representative industries but other industries have significantly different practices.

This indicates an area for future research. The accounting practices chosen by companies could be studied statistically with a large sample. The most common practices used by companies together with deviation from the common practices could be studied in both countries and the results compared. Further research would be particularly useful for valuation of assets. The findings of this study suggest that UK companies prefer cost model rather than valuation model whereas the literature gives an optimistic picture of the UK practices suggesting that revaluation is common. Further research into the issue would therefore be justified.

Gray's model is still considered applicable in identifying differences in accounting values. Therefore the research process could be repeated by analysing other accounting issues than in this study. As an example, optimism versus conservatism could be studied by analysing issues such as financial instruments, profitability ratios or capital reserves. Other accounting issues related to information disclosure could be analysed as well. It is observed by the researcher that Finnish companies have a tendency to explain accounting policies used in more general terms, whereas the UK companies have more specific explanations.

This study focuses only on IFRS standards regarding valuation, segment reporting and accounting assumptions. There are several other standards and accounting issues where national differences can still exist even on a higher level than in the issues analysed in this study. Presentation of the financial statements is an example of such an issue as the presentation of statements varies between companies. Also information that is presented in annual reports but not in the financial statements per se is a potential area of research. Information presented in the financial statements has to meet the strict requirements of the standards whereas information outside the statements can be presented more freely.

5 SUMMARY

The EU adopted International Financial Reporting Standards (IFRS) in 2005 and it became compulsory for all companies listed in a stock exchange in any member country to use IFRS in their financial reporting for consolidated statements. Even though listed companies in Finland and the UK are using the same standards, there still are differences in accounting culture. Therefore there also are differences in practice that have to be taken into consideration when analysing and comparing reports from the two countries. This study analyses those differences in six case companies of which three are from Finland and three are from the UK.

Differences in reporting under IFRS are caused by historical differences in accounting in Finland and in the UK. In Finland the state has traditionally had an important role in providing finance for the businesses and the state has had a close control over the accounting regulation through close tie between tax and accounting regulation. On the other hand, in the UK the main source of finance for companies has been private shareholders and the accounting regulation has been controlled and developed by an independent accounting profession as tax regulation has been separated from accounting regulation. The state as an institutional investor in Finland has had access to insider information in the companies through being able to appoint representatives to the management. Therefore the need for transparent external reporting has been less significant than in the UK where private investors have depended solely on the external reporting by the management. For these reasons the accounting tradition in Finland is less transparent than in the UK. Accounting in the UK has also been considered to be more optimistic as for example revaluation of asset values has been permitted in the UK accounting regulation whereas in Continental Europe historic cost accounting has been the only accepted treatment.

The study is conducted by analysing six companies; Nokia, Cargotec and Huhtamäki from Finland and Vodafone, Tomkins and Rexam from the UK. The companies operate in similar industries in order to increase the comparability. The study focuses on analysing accounting policies under IFRS that are associated with asset valuation of certain asset classes. The use of revaluation of assets is considered to indicate optimism in accounting and historic cost accounting is considered to represent conservatism. Both the models are accepted under IFRS. Also selected accounting policies that are associated with information disclosure are analysed. The accounting policies regarding information disclosure are segment reporting, impairment testing of goodwill and sensitivity analysis in impairment testing.

Based on the findings, the case companies are placed in Gray's (1988) accounting classification model that has been adapted for the purpose. The model illustrates differences regarding cultural accounting values, focusing on transparency as opposed to secrecy and optimism as opposed to conservatism. The other part of the model analysing flexibility opposed with uniformity and professionalism opposed with statutory control is excluded from the analysis. It is argued that the adoption of IFRS has made the part of the model obsolete as the levels should be exactly the same for everyone using IFRS.

The findings of the study do not support the view that accounting in the UK is more optimistic than in Finland. None of the case companies analysed from the UK used the revaluation model in their accounting for any of the asset classes analysed. Also all the companies in Finland used historic cost model despite revaluation being allowed by IFRS.

The findings regarding transparency suggest that there are differences in levels of transparency between Finnish and UK companies, even though differences are generally small. Differences exist among companies from the same country as well. The companies from the UK are found to be slightly more transparent than the Finnish companies.

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- IFRSs:
    - IFRS 1 First-time Adoption of International Financial Reporting Standards
    - IFRS 2 Share-based Payment
    - IFRS 3 Business Combinations
    - IFRS 4 Insurance Contracts
    - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
    - IFRS 6 Exploration for and evaluation of Mineral Resources
    - IFRS 7 Financial Instruments: Disclosures
    - IFRS 8 Operating Segments

- IASs:
    - IAS 1 Presentation of Financial Statements
    - IAS 2 Inventories
    - IAS 7 Cash Flow Statements
    - IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
    - IAS 10 Events After the Balance Sheet Date
    - IAS 11 Construction Contracts
    - IAS 12 Income Taxes
    - IAS 16 Property, Plant and Equipment
    - IAS 17 Leases
    - IAS 18 Revenue
    - IAS 19 Employee Benefits
    - IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
    - IAS 21 The Effects of Changes in Foreign Exchange Rates
    - IAS 23 Borrowing Costs
    - IAS 24 Related Party Disclosures

- IAS 26 Accounting and Reporting by Retirement Benefit Plans
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 29 Financial Reporting in Hyperinflationary Economies
- IAS 31 Interests in Joint Ventures
- IAS 32 Financial Instruments: Presentation
- IAS 33 Earnings per Share
- IAS 34 Interim Financial Reporting
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- iAS 40 Investment Property
- IAS 41 Agriculture