



# Finnish Accounting in Transition: Comparing FAS and IFRS Through Case Analysis

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This bachelor's thesis analyses the key differences between Finnish Accounting Standards (FAS) and International Financial Reporting Standards (IFRS) and examines their impact on financial reporting, taxation, and business decision-making in Finnish companies. This study explores how the accounting system in Finland arose from the works of early accounting thinkers, such as Martti Saario, and how his Expenditure-Revenue Theory has influenced financial reporting and policies related to taxation. However, when the European Union mandated IFRS for listed companies in 2005, many Finnish businesses faced the challenge of migrating from FAS to IFRS. This research explores these challenges and evaluates whether IFRS adoption impacts financial reporting practices. The objective is to provide insight for companies, accountants, and investors into the implications of IFRS adoption and the continued presence of FAS in Finland.

This research employs a qualitative approach combining a comparative analysis of FAS and IFRSs and a case study of a Finnish company which adopted IFRS recently. It investigates lease treatment, deferred taxes, share-based payments, inventory valuation, and other differences related to the case company. Also, practical insights are given in the case study regarding financial reporting adjustments to company operations and financial transparency. The findings highlight the most significant changes in the financial statements resulting from IFRS adoption, the difficulties faced by firms during the transition period, and the advantage of having more comparability and more investor confidence. Finally, the research provides guidelines for Finnish companies thinking about adopting IFRS and discusses how firms can manage the transition effectively.

Keywords: FAS, IFRS, IAS, Accounting Standards, Financial Statements, Financial Reporting, Accounting Differences, Standard Comparison.

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## 1 Introduction

### 1.1 Research Objective and Structure

The aim of this bachelor's thesis is to analyze Finnish Accounting Standards (FAS) and to compare these with the IFRS and find the major differences between them. Secondly, this thesis will explore the transition challenges Finnish companies face when adopting IFRS and the influence that this change has brought to financial reporting practice. The Finnish accounting has been influenced over the years by early accounting thinkers and developed regulations for financial reporting. Martti Saario's Expenditure-Revenue Theory was among the most important developments, which consequently significantly influenced Finnish accounting history and the policies on financial reporting and taxation in Finland (Lukka & Pihlanto 1994). In 2005, the European Union (EU Regulation No 1606/2002) commanded all publicly listed companies within its member states to adopt IFRS, which caused major changes in Finnish accounting legislation. Although IFRS has enhanced globalization, making the financial world more transparent and comparable all over the world, still many Finnish private companies have continued to use FAS which is more compatible with national tax laws.

The first part evaluates Finnish accounting history and contributions from key accounting experts who developed Finnish financial reporting. Swedish bookkeeping traditions influenced early Finnish accounting practices, and August Lilius and Martti Saario significantly shaped Finnish accounting theories in the 19th and 20th centuries. For example, the initial Finnish bookkeeping textbook was published by August Lilius in 1862 and introduced many concepts, in many ways, like modern IFRS principles. Over time, Finnish accounting transformed into a structured system with regulations created in order to improve transparency and financial control (Virtanen 2004). To identify the root of the current distinctions between Finnish Accounting Standards and IFRS, it is essential to know the historical development of accounting practices in Finland.

The second part will discuss IFRS and their role. The International Accounting Standards Board (IASB) issues IFRS and currently more than 120 countries across the globe are using it. In 2002, the European Union made a big step toward harmonizing financial reporting throughout Europe by mandating IFRS for listed companies. The standardization of the financial reporting

practice helps increase the comparability of the accounting data, making it easier to estimate how the company performs across different countries (Virtanen 2009). The second section considers the main IFRS principles, and reasons for adoption among those principles, and significant differences between IFRS and FAS.

The third part of this thesis will proceed with a case study to compare Finnish Accounting Standards with those standards set out by the IFRS. This thesis will analyze the practical effects of a Finnish listed company Betolar that has transitioned from FAS to IFRS. This thesis will point out key differences in financial reporting, taxation, and business decision making by reviewing financial reports prepared under both standards. A summarized table will contain the key differences between Finnish Accounting Standards and IFRS. The last section of the thesis will summarize and analyze the key distinctions between IFRS and FAS.

## 1.2 Research Motivation

One of the primary motivations of this research is the rising importance of IFRS in the global financial market. Listed companies in Finland have been required to report under IFRS since 2005 (Jarva & Lantto 2012). However, most private companies still use FAS, which is mainly intended to correspond with the Finnish tax law, rather than international reporting requirements. This can create some confusion when companies send their financial statements to international investors or even to companies with overseas subsidiaries (Metsä-Tokila 2021). This research will provide valuable information through examining the key differences in FAS and IFRS, and how companies can adjust their financial reporting practices to meet international standards.

A second reason that motivates this study is the practical difficulties businesses encounter during the FAS to IFRS transition. The transition requires that companies make significant changes in how they recognize revenue, value their assets, and report financial performance. These changes can affect things like tax obligations, investment decisions, and even the company's overall financial strategy (Tuomela 2024). This research examines the challenges and benefits of adopting IFRS by examining a case company that has adopted IFRS. This will assist other Finnish businesses to understand what to expect and to prepare for a smoother transition.

Furthermore, this research is related to the need to increase awareness and education of IFRS in Finland. Individuals who work at large corporations have teams that are dedicated to IFRS compliance, while most smaller businesses will face struggle to understand the international accounting requirements. In Finland, where FAS has been the standard for many decades, there are many accountants and financial professionals familiar with FAS (Tuomela 2024). The

result of this study will take part in the discussion regarding on how Finnish companies and financial professionals can develop their understanding of IFRS and further development of their financial reporting.

### 1.3 Research Questions

This thesis explores key distinctions between FAS and IFRS accounting standards, along with their impact on financial statements. When the Finnish companies operate in domestic and international market, it is most important to understand these differences for transparent financial reporting, fulfill government compliances and gaining investor confidence. This thesis also provides historical analysis of IFRS and FAS. The study aims to resolve this issue by answering the essential research questions.

1. What are the main differences between Finnish Accounting Standards and International Financial Reporting Standards?
2. How do these differences affect the Finnish companies in the different parts of financial reporting and decision making?

## 2 Research Methodology

The aim of this research is to identify the difference between Finnish Accounting Standards and IFRS, and how these differences affect companies in Finland. This is a qualitative study which means it looks at existing information and does not seek to gather new information through surveys or interviews. An analysis of FAS and IFRS is conducted to determine the main differences between the two. The study combines theoretical knowledge with practical examples, including a case study of a Finnish company that recently transitioned from FAS to IFRS.

This research relies on secondary data, which means the data already exists. Secondary data analysis means the analysis of data collected by someone else for some other primary purpose (Johnston 2014, 1). It includes financial reports, accounting guidelines, books, and papers of research. These sources are used to ensure that the study is based on reliable information and well-known accounting principles. Secondary data analysis is helpful to see general trends of what happened in history. Primary data is harder to find but is available. Secondary data on the other hand is readily available, and therefore easier to find. Secondary analysis, which involves applying the same basic research principles as primary data studies and has steps to follow just as any research method (Johnston 2014, 1). As accounting standards can be highly complicated, the differences are explained in clear and understandable ways through analyzing existing financial statements and regulatory documents.

Comparison of FAS and IFRS is a major part of this study. This considers specific areas where these two accounting systems are different. The major topics discussed include how companies record lease costs, how they calculate deferred tax, how they treat share-based payments, how they value inventory, how they treat government grants and how they report expenses. The selection of these particular topics could be justified by their direct relevance to the case company. There are many differences between accounting standards, as pointed out in the summary table further in this thesis outlined by Jarva & Lantto (2012), but the focus was kept on these specific areas. The topics were chosen because they greatly impact the company's financial reporting, as subject to comparison. In addition, the research also investigates these issues in more depth with both IFRS and FAS. By using this approach, we can examine how these accounting treatments differ and may impact financial statements in practice. This is why the knowledge of these differences is particularly important and beneficial for businesses, accountants, students, investors and especially for the companies that are planning to move overseas or attract foreign investments.

For providing a real-life example, this research also has a case study of a Finnish company which has transmitted from Finnish Accounting Standards to IFRS. The first part of the case study evaluates the changes in the company's financial reports, the effect of such changes on the company's tax reporting, and how financial ratios and Company valuation were affected. Additionally, it discusses the difficulties faced by the company regarding the adoption of IFRS as well as its benefits. The research of this company is to provide practical guideline for other Finnish companies that are considering implementing IFRS.

Although this research provides useful practical knowledge, it has some limitations. As it is based on existing data, this does not contain interviews with companies or direct feedback from accountants. Moreover, the case study focuses on a single company so the findings cannot be generalized for all industries or businesses. Furthermore, FAS and IFRS are revised regularly and certain differences between FAS and IFRS may have changed over time. Though the conclusions of this research are subject to these limitations, this research offers invaluable information to those companies, accountants, and other financial professionals who wish to assist with the movement from FAS to IFRS.

### 3 History of Finnish Accounting & IFRS

Numerous changes have occurred in Finnish accounting as a result of political and economic changes over time. Before this, merchants had their own way of tracking their finances. Accounting was still unstructured when Finland was under Swedish and Russian rule (Kettunen 1993, cited in Virtanen 2004, 190). August Lilius's bookkeeping textbook, published in 1862, was a major step forward and encouraged using systematic financial records (Lilius 1862,

cited in Virtanen 2004, 191). In the late 19th century, Kallioniemi presented the idea of business transactions separately, while Kaitla focused on asset valuation and depreciation (Virtanen 2004, 192, 194). When Finland became independent in 1917, financial record keeping was much more organized and reliable under the Accounting Act of 1925 (Näsi 1990, cited in Virtanen 2004, 195). Finland updated its laws to meet EU rules and adopted IFRS for listed companies in 2005, changing asset valuation from historical cost to fair market value (Pirinen 1996, cited in Virtanen 2004, 196). Martti Saario also played a significant role as he introduced the Expenditure-Revenue Theory, which increased the importance of income statements and influenced the taxation laws (Näsi & Näsi 1996, cited in Pajunen et al. 2016, 12). Additionally, he introduced the term *Fiskus*, meaning that the government participates in taxes and financial matters (Saario 1945, in Pajunen et al. 2016, 13). The Corporate Tax Law of 1968 and the Accounting Act of 1973 were influenced by his theory, making financial reporting well-organized and clear to read (The Corporate Tax Law 1968/360; The Accounting Act 1973/655).

The global accounting standards come from 1973, when the International Accounting Standards Board (IASB) was established. The first nine countries, including the America, United Kingdom, and Japan, formed the International Accounting Standards Committee (IASC) to set-up the International Accounting Standards (IAS). Throughout time, the IASC created the essential structures for accounting reporting, and in the year 2001, it was replaced by the IASB, which proceeded to make the IFRS Standards. The milestone was the Norwalk Agreement of 2002, by which IASB and the U.S. Financial Accounting Standards Board (FASB) made a commitment to join IFRS with U.S. GAAP. By 2007, IFRS was adopted by many European countries, and in 2007, The U.S. Securities and Exchange Commission (SEC) allowed overseas companies to use IFRS in their accounting reports. Japan, China, Canada, and Brazil gradually worldwide adopted it. In 2009, the IFRS Foundation overseeing the IASB also introduced more reforms, such as the IFRS for Small and Medium Sized Entities (SMEs) standard and the IFRS Accounting taxonomy in 2017, which enhanced digital financial reporting (IFRS, 2025).

Finland adopted IFRS in separate phases. During the 1970s-1990s, awareness of the Internal Accounting Standard (IAS) was raised, but Companies continued using the old tradition of tax-based accounting. Some of the IAS'S elements were made part of Finnish law in the 1990s following European rules. However, the real change came in 2005 when the EU Regulation 1606/2002 was enacted, mandating that all publicly listed companies within the EU adopt IFRS. Prior to this, Finnish accounting was focused on tax reporting, which made it complicated for foreign investors to understand. As Finnish businesses grew internationally, they started to face pressure to become transparent with financial statements. In 1997, Finland passed a law amending its Accounting Act in line with EU directives, and by 2004, IFRS became mandatory for Finnish-listed companies. This reform improved transparency made

Finnish companies more attractive to international investors and enabled the competition of Finnish companies on a global scale (IFRS, 2025).

#### 4 Key Difference Between IFRS and FAS

There are two main differences between Finnish Accounting Standards (FAS) and IFRS. First, FAS does not have specific rules on accounting for some accounting issues such as those that are addressed by IFRS. Second, the same issue is often addressed by both standards, but they may manage it in separate ways. According to Jarva & Lantto (2012), the difference is made clear by Ding et al. (2007) as absence and divergence; absence relates to the lack of certain IFRS rules in the FAS and divergence concerns the same issue treated differently in the two systems (Ding et al. 2007, cited in Jarva & Lantto 2012, 149).

IAS has had an impact on FAS, although not as great as that of the European Union (EU) Directives in the 1990s. According to EU directive, consolidated accounts have been permitted to give a true and fair view of a company's financial position, but because accounting is often linked to taxation in Finland, this requirement fulfill through additional disclosures rather than by changing the reported figures (Nobes & Parker 2002, cited in Jarva & Lantto 2012, 149). Additionally, although FAS had adopted certain IAS principles, they were used mostly on an optional treatment basis or were applied only to consolidated financial statements (Pirinen 2005, cited in Jarva & Lantto 2012, 149-152).

But by the late 1990s, the differences between FAS and IFRS had increased further; IFRS became more developed as it continued to change, while FAS remained the same. When Finnish companies adopted IFRS, this led to considerable changes in financial reporting especially in the key accounting figures and financial ratios (Lantto & Sahlström 2009, cited in Jarva & Lantto 2012, 152).

One of the important things is that IFRS financials state that the financial statements must be proved by substance of transactions and economic reality, unlike the FAS historical cost. The second argument refers to the fact that IFRS applies a fair value-based measurement approach, while FAS primarily follows historical cost measurement, although a downward valuation of the long-term assets does occur upon permanent impairments (Jarva & Lantto 2012, 152). The major differences between FAS and IFRS are presented in Table 1.

Table 1 Overview of differences between FAS and IFRS (Jarva &amp; Lantto 2012, 152)

Accounting Standards	FAS	IFRS
<b>Employee Benefits (IAS 19)</b>	All post-employment benefit plans are treated as defined contribution plans.	Requires post-employment benefit plans to be classified as either defined contribution or defined benefit plans.
<b>Income Taxes (IAS 12)</b>	Deferred tax can be calculated based on timing differences, not required for all taxable temporary differences.	Requires deferred tax liability for all taxable temporary differences.
<b>Intangible Assets (IAS 38)</b>	Emphasizes prudent capitalization of development expenditures.	Assets recognized when future benefits are probable, and cost can be reliably measured.
<b>Construction Contracts (IAS 11)</b>	Recognition by stage of completion is optional.	Requires costs and revenues to be recognized based on stage of completion.
<b>Inventories (IAS 2)</b>	Inventory can be valued without including production overheads.	Inventory must be valued at full cost.
<b>Leases (IAS 17)</b>	All leases can be treated as operating leases.	Leases classified as either finance or operating leases.
<b>Share-Based Payments (IFRS 2)</b>	Only disclosed in notes, not recognized in financial statements.	Share-based payments liabilities must be measured at fair value.
<b>Impairment of Assets (IAS 36)</b>	Downward valuation allowed only for permanent impairments.	Assets with indefinite useful life must be tested for impairment annually.
<b>Financial Instruments (IAS 39)</b>	Measurement at historical cost, fair value allowed but not required.	Most financial instruments measured at fair value.

Accounting Standards	FAS	IFRS
<b>Agriculture (IAS 41)</b>	Measured at historical cost.	Biological assets measured at fair value.
<b>Investment Property (IAS 40)</b>	Measured at historical cost.	Can be measured at fair value.
<b>Property, Plant &amp; Equipment (IAS 16)</b>	Measured at historical cost unless significantly higher fair value is evident.	Can be measured at fair value after initial recognition.
<b>Business Combinations (IFRS 3)</b>	Pooling of interest's method allowed; goodwill amortized systematically.	Purchase method required, assets & liabilities at fair value, goodwill impairment annually.

Table 1 presents a summary of the key differences between IFRS and FAS as applied to employee benefits, income taxes, inventories, leases, share based payments, and financial instruments, highlighting key similarities and differences. For instance, IFRS requires fair value measurement of pension assets and liabilities (IAS 19), most financial instruments (IAS 39), biological assets (IAS 41), share-based payment liabilities (IFRS 2) and business combination assets (IFRS 3) while FAS does not (Lantto & Sahlström 2009, 152). Similarly, under IFRS, deferred tax liabilities for all taxable temporary differences are required (IAS 12), while under FAS, deferred tax can be calculated based on timing differences and not required for all taxable temporary differences (Jarva & Lantto 2012, 152).

Another key difference is in lease accounting. According to IFRS (IAS 17), leases should be classified with determination to whether they should be recorded as finance leases or as operating leases, which is different from FAS, in which all leases may be treated as operating leases (Jarva & Lantto 2012, 154).

Furthermore, under IFRS, goodwill is to be tested for impairment annually rather than amortized it, while FAS permits amortization (IFRS 3). Furthermore, IFRS grants the choice to measure investment property and property, plant, and equipment at fair value (IAS 40, IAS 16), whereas FAS allows fair value measurement under limited circumstances (Jarva & Lantto 2012, 154).

The Finnish company Betolar Plc which involved in material technology, shifted from FAS to IFRS. Betolar also believed that adopting the IFRS accounting standard Would contribute to the company's growth initiatives, improve the ability to compare financial data, and attract

more global investors to the company. The IFRS implementation started on 1 January 2021 (Betolar 2025).

Betolar has compiled the following IFRS financial statements to offer investors comparative financial data about the Group's consolidated balance sheet for the fiscal year ending 31 December 2021, which is shown in figures 3 & 4. Additionally, Figures 1 and 2 display the consolidated balance sheet as of the IFRS transition date, 1 January 2021. The following sections provide the key differences between IFRS and FAS reporting, the main impacts of the IFRS transition, and the relevant reliefs available.

EUR	FAS 1 January 2021	IFRS 16 Leases (A)	IAS 12 Deferred tax assets from losses (B)	IFRS 10 Non-controlling interests (C)	IFRS 2 Share-based payments (D)	IAS 2 Inventories (E)	Reclassification (I)	Effects of the transition to IFRS	IFRS 1 January 2021
<b>ASSETS</b>									
<b>Non-current assets</b>									
Development expenditures	803 165	0	0	0	0	0	55 017	55 017	858 182
Other intangible assets	55 017	0	0	0	0	0	-55 017	-55 017	0
Property, plant and equipment	120 262	0	0	0	0	0	0	0	120 262
Right-of-use assets	0	111 770	0	0	0	0	0	111 770	111 770
Deferred tax assets	0	0	462 197	0	0	0	0	462 197	462 197
<b>Non-current assets, total</b>	<b>978 444</b>	<b>111 770</b>	<b>462 197</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>573 967</b>	<b>1 552 410</b>
<b>Current assets</b>									
Inventories	17 407	0	0	0	0	-17 407	0	-17 407	0
Trade receivables	272	0	0	0	0	0	0	0	272
Other receivables	101 327	0	0	0	0	0	0	0	101 327
Accrued income and prepaid expenses	73 388	0	0	0	0	0	0	0	73 388
Financial securities	0	0	0	0	0	0	0	0	0
Cash and cash equivalents	644 186	0	0	0	0	0	0	0	644 186
<b>Current assets, total</b>	<b>836 581</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-17 407</b>	<b>0</b>	<b>-17 407</b>	<b>819 173</b>
<b>TOTAL ASSETS</b>	<b>1 815 024</b>	<b>111 770</b>	<b>462 197</b>	<b>0</b>	<b>0</b>	<b>-17 407</b>	<b>0</b>	<b>556 559</b>	<b>2 371 584</b>

Figure 1 Balance sheet (Assets) reconciliation 1st January 2021 of Betolar (Betolar IFRS Transition Report 2021, 7).

EUR	FAS 1 January 2021	IFRS 16 Leases (A)	IAS 12 Deferred tax assets from losses (B)	IFRS 10 Non-controlling interests (C)	IFRS 2 Share-based payments (D)	IAS 2 Inventories (E)	Reclassification (I)	Effects of the transition to IFRS	IFRS 1 January 2021
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>									
<b>Equity</b>									
Share capital	2 500	0	0	0	0	0	0	0	2 500
Reserve for invested unrestricted equity	949 995	0	0	0	0	0	0	0	949 995
Share issue	2 770 538	0	0	0	0	0	0	0	2 770 538
Translation differences	0	0	0	0	0	0	0	0	0
Retained earnings (losses)	-926 914	0	462 197	0	219 713	0	0	681 910	-245 004
Result from the financial year	-1 385 495	0	0	0	-219 713	-17 407	0	-237 120	-1 622 616
Non-controlling interests	0	0	0	0	0	0	0	0	0
<b>Total equity</b>	<b>1 410 624</b>	<b>0</b>	<b>462 197</b>	<b>0</b>	<b>0</b>	<b>-17 407</b>	<b>0</b>	<b>444 790</b>	<b>1 855 413</b>
<b>Non-current liabilities</b>									
Loans from credit institutions	0	0	0	0	0	0	0	0	0
Government loan	0	0	0	0	0	0	0	0	0
Lease liabilities	0	57 279	0	0	0	0	0	57 279	57 279
<b>Non-current liabilities, total</b>	<b>0</b>	<b>57 279</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>57 279</b>	<b>57 279</b>
<b>Current liabilities</b>									
Loans from credit institutions	0	0	0	0	0	0	0	0	0
Lease liabilities	0	54 491	0	0	0	0	0	54 491	54 491
Accounts payable	141 348	0	0	0	0	0	0	0	141 348
Other payables	50 811	0	0	0	0	0	0	0	50 811
Accruals and deferred income	212 242	0	0	0	0	0	0	0	212 242
<b>Current liabilities, total</b>	<b>404 400</b>	<b>54 491</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>54 491</b>	<b>458 891</b>
<b>Total liabilities</b>	<b>404 400</b>	<b>111 770</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>111 770</b>	<b>516 170</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL</b>	<b>1 815 024</b>	<b>111 770</b>	<b>462 197</b>	<b>0</b>	<b>0</b>	<b>-17 407</b>	<b>0</b>	<b>556 559</b>	<b>2 371 584</b>

Figure 2 Balance sheet (Liabilities) reconciliation 1st January 2021 of Betolar (Betolar IFRS Transition Report 2021, 8).

EUR	FAS 31 December 2021	IFRS 16 Leases (A)	IAS 12 Deferred tax assets from losses (B)	IFRS 10 Non-controlling interests (C)	IFRS 2 Share-based payments (D)	IAS 2 Inventories (E)	IAS 23 Borrowing Costs; IFRS 9 Financial instruments (F)	IAS 20 Government grants (G)	IAS 32 Listing expenses (H)	Reclassification (I)	Effects of the transition to IFRS	IFRS 31 December 2021
<b>ASSETS</b>												
<b>Non-current assets</b>												
Development expenditures	1 812 848	0	0	0	0	0	9 874	-90 268	0	47 758	-32 636	1 780 212
Other intangible assets	28 885	0	0	0	0	0	0	0	0	0	0	28 885
Other capitalised long-term expenditures	47 758	0	0	0	0	0	0	0	0	-47 758	-47 758	0
Goodwill	112 270	0	0	-112 270	0	0	0	0	0	0	-112 270	0
Property, plant and equipment	169 995	0	0	0	0	0	0	0	0	0	0	169 995
Right-of-use assets	0	153 377	0	0	0	0	0	0	0	0	153 377	153 377
Non-current receivables	15 600	0	0	0	0	0	0	0	0	0	0	15 600
Deferred tax assets	0	581	1 924 349	0	0	0	0	0	0	0	1 924 930	1 924 930
<b>Non-current assets, total</b>	<b>2 187 355</b>	<b>153 958</b>	<b>1 924 349</b>	<b>-112 270</b>	<b>0</b>	<b>0</b>	<b>9 874</b>	<b>-90 268</b>	<b>0</b>	<b>0</b>	<b>1 885 643</b>	<b>4 072 998</b>
<b>Current assets</b>												
Inventories	9 057	0	0	0	0	-9 057	0	0	0	0	-9 057	0
Trade receivables	6 646	0	0	0	0	0	0	0	0	0	0	6 646
Other receivables	381 555	0	0	0	0	0	0	0	0	0	0	381 555
Accrued income and prepaid expenses	219 599	0	0	0	0	0	0	0	0	0	0	219 599
Financial securities	33 997 518	0	0	0	0	0	0	0	0	0	0	33 997 518
Cash and cash equivalents	3 357 609	0	0	0	0	0	0	0	0	0	0	3 357 609
<b>Current assets, total</b>	<b>37 971 983</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-9 057</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-9 057</b>	<b>37 962 926</b>
<b>TOTAL ASSETS</b>	<b>40 159 338</b>	<b>153 958</b>	<b>1 924 349</b>	<b>-112 270</b>	<b>0</b>	<b>-9 057</b>	<b>9 874</b>	<b>-90 268</b>	<b>0</b>	<b>0</b>	<b>1 876 586</b>	<b>42 035 924</b>

Figure 3 Balance sheet (Assets) reconciliation 31st December 2021 of Betolar (Betolar IFRS Transition Report 2021, 5).

EUR	FAS 31 December 2021	IFRS 16 Leases (A)	IAS 12 Deferred tax assets from losses (B)	IFRS 10 Non-controlling interests (C)	IFRS 2 Share-based payments (D)	IAS 2 Inventories (E)	IAS 23 Borrowing Costs; IFRS 9 Financial instruments (F)	IAS 20 Government grants (G)	IAS 32 Listing expenses (H)	Reclassification	Effects of the (I) transition to IFRS	IFRS 31 December 2021
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>												
<b>Equity</b>												
Share capital	80 000	0	0	0	0	0	0	0	0	0	0	80 000
Reserve for invested unrestricted equity	47 958 008	0	0	0	0	0	0	0	-2 936 268	14 170	-2 922 098	45 035 910
Share issue	12 866	0	0	0	0	0	0	0	0	0	0	12 866
Treasury shares	0	0	0	0	0	0	0	0	0	-14 170	-14 170	-14 170
Translation differences	0	0	0	0	0	0	0	0	0	0	0	0
Retained earnings (losses)	-2 309 046	0	462 197	-130 737	1 216 589	-17 407	0	0	0	0	1 530 642	-778 404
Result from the financial year	-7 329 221	-2 326	1 462 152	18 466	-1 216 589	8 351	2 142	0	2 936 268	0	3 208 464	-4 120 757
Non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total equity</b>	<b>38 412 608</b>	<b>-2 326</b>	<b>1 924 349</b>	<b>-112 270</b>	<b>0</b>	<b>-9 057</b>	<b>2 142</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1 802 838</b>	<b>40 215 446</b>
<b>Non-current liabilities</b>												
Loans from credit institutions	12 157	0	0	0	0	0	0	0	0	0	0	12 157
Government loan	359 635	0	0	0	0	0	7 733	-90 268	0	0	-82 535	277 100
Lease liabilities	0	72 922	0	0	0	0	0	0	0	0	72 922	72 922
<b>Non-current liabilities, total</b>	<b>371 792</b>	<b>72 922</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7 733</b>	<b>-90 268</b>	<b>0</b>	<b>0</b>	<b>-9 613</b>	<b>362 179</b>
<b>Current liabilities</b>												
Loans from credit institutions	4 073	0	0	0	0	0	0	0	0	0	0	4 073
Lease liabilities	0	83362	0	0	0	0	0	0	0	0	83362	83 362
Accounts payable	766 990	0	0	0	0	0	0	0	0	0	0	766 990
Other liabilities	52 305	0	0	0	0	0	0	0	0	0	0	52 305
Accruals and deferred income	551 570	0	0	0	0	0	0	0	0	0	0	551 570
<b>Current liabilities, total</b>	<b>1 374 938</b>	<b>83 362</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>83 362</b>	<b>1 458 300</b>
<b>Total liabilities</b>	<b>1 746 730</b>	<b>156 284</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7 733</b>	<b>-90 268</b>	<b>0</b>	<b>0</b>	<b>73 749</b>	<b>1 820 479</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL</b>	<b>40 159 338</b>	<b>153 958</b>	<b>1 924 349</b>	<b>-112 270</b>	<b>0</b>	<b>-9 057</b>	<b>9 874</b>	<b>-90 268</b>	<b>0</b>	<b>0</b>	<b>1 876 586</b>	<b>42 035 924</b>

Figure 4 Balance sheet (Liabilities) reconciliation 31st December 2021 of Betolar (Betolar IFRS Transition Report 2021, 6).

## 4.1 Lease Contracts

### 4.1.1 IFRS vs FAS

IFRS 16 explains how companies should record leases in their financial statements. A company that becomes a temporary user of an asset, through a specified duration, under a lease agreement. It applied to those who rent assets, known as lessees, and those who offer assets to rent, known as lessors (IFRS Foundation 2024, para. 1). Under IFRS 16, these leases had not always been shown on the balance sheet of companies, but now they are required. As a result, IFRS 16 make it necessary for lessees to record lease liabilities, which denote the value of leased assets payable by the lessee to the lessor, and right-of-use(ROU) assets, which denote the value the company gains from being able to use the leased item. This gives complete information to the investors regarding the financial effects of leases (IFRS Foundation 2024, para. 3).

According to paragraph 22 of IFRS Foundation (2024), when a company begins a lease, both a lease liability (what they owe) and a ROU asset (the value of using the asset) must be recorded in the balance sheet. The lease liability is the present value of future lease payments and the company's borrowing rate is used for its discounting (IFRS Foundation 2024, para. 26). The company must also amortize the value of the right-of-use asset and record interest expense on the lease liability over time (IFRS Foundation 2024, para. 37). Moreover, assets acquired under short term lease agreements of less than 12 months and low assets values do not require balance sheet recording but should be accounted as expenses in the normal course of business (IFRS Foundation 2024, para. 6).

Leases are classified by lessors into finance leases, in which ownership is transferred, and operating leases, in which ownership remains with the lessor (IFRS Foundation, 2024, para. 61). In finance leases, the lessor takes the asset off its balance sheet and instead records a receivable, realizing interest income on this receivable over time (IFRS Foundation 2024, para. 67). On the contrary, the counterpart to an operating lease is a regular lease agreement where the lessor retains ownership of the asset and records it in their balance sheet and recognizes lease payments as rent income over the life of the lease (IFRS Foundation 2024, para. 81).

However, as IFRS Foundation (2024, para. 44) says, if lease terms change, the company must change the recorded values accordingly. There is also special rule related to sale and leaseback transactions whereby the company sells the assets and then leases it back (IFRS

Foundation 2024, para. 98). These rules make sure that such transactions are correctly recorded in financial terms.

Under Finnish Accounting Standards, lease payments are treated as other business costs during the rental duration and are reported as off-balance-sheet liabilities. Although FAS permits the capitalization of leased assets, Finnish tax regulations do not allow this treatment. Instead, in Finland, leases are generally recorded as operating expenses in the income statement, and lease obligations are typically disclosed in the notes to the financial statements rather than being recognized as formal liabilities (Azets 2024).

There is no definition of leasing under the Finnish accounting laws. But the Finnish Accounting Act still states, the companies are entitled to apply IFRS rules for lease agreements. As a result, if transfers of liabilities and advantages of the rented asset to the company that rents it (the lessee) occur, these transfers can be recorded in the same manner as under IFRS. However, this method must be applied in a consistent way on all similar leases (Accounting Act 1336/1997 Chap. 5, S. 5b).

Leases in FAS accounting do not have to be valued in any specific way. Companies instead typically based recorded leases on invoices, employing the marked amount on the invoice as the value. Companies in Finland can choose to keep lease agreements under the IFRS rules, which need them to record a lease as an asset on their balance sheets and the corresponding lease payments as debt on their balance sheet, although if they do not do so, the lease payments will show in the income statement as expenses without them classifying the lease as an asset or debt. However, according to the Finnish Accounting Ordinance (1339/1997), if lease commitments are important to understand the company's financial situation, they shall still be reported as off-balance sheet liabilities (Accounting Ordinance Chap. 2, S. 7). By this rule, it is ensured that leasing liabilities should be reported transparently when it is required to give a reliable and comprehensive presentation of the organization's financial results (Accounting Act 1336/1997 Chap. 3, S. 2).

#### 4.1.2 Impact on Company

According to FAS, leasing payments were reported as operating expenses, and their future payments were stated as off-balance sheet liabilities (9, Betolar IFRS Transition Report 2021). With the conversion to IFRS 16 on January 1, 2021, Betolar had to recognize a right-of-use asset of EUR 112 thousand and related right-of-use lease liability divide in short term and long-term parts. Total right-of-use assets amounted to EUR 153 thousand at the end of 2021 and total lease liabilities totaled EUR 156 thousand (Betolar IFRS Transition Report 2021, 9).

According to IFRS Foundation (2024, para. 26), the lease liability under IFRS 16 is required to be measured at present value of expected lease payments as the discounted incremental

borrowing rate if not easily calculated through internal rate of return. For the case of Betolar, the exact incremental borrowing rate could not be determined, hence the company used the incremental borrowing rate they estimate to be used (Betolar IFRS Transition Report 2021, 9).

Furthermore, under IFRS 16, a lease's term needs to be specified by the contractual terms including the extension options. For example, an asset on lease that does not have a fixed end date but one that can be extended indefinitely should be estimated the length of time that company thinks it will be using the asset (IFRS Foundation 2024, para. 19). In addition, Betolar reviewed its lease agreements and concluded that it would exercise the applicable continuation options and as a result, some contracts' lease term would be extended (Betolar IFRS Transition Report 2021, 9).

In FAS lease expenses were recorded to other operating expenses thus reducing EBITDA. With respect to IFRS 16, rents were recategorized from cost of sales to depreciation (amortization of right of use assets) and interest expense (on lease liabilities) (Betolar IFRS Transition Report 2021, 9). Thus, the lease expenses were excluded from the calculation of operating expenses and allocated to depreciation and interest expenses, which led to an increase in EBITDA. Furthermore, the financial liabilities increased because the lease liabilities were recorded as on balance sheet items, and for this reason, the equity ratio was affected.

## 4.2 Deferred Taxes

### 4.2.1 IFRS vs FAS

IAS 12 represents an accounting standard that guides companies on the correct recording income tax effects in the financial reports. In other words, it includes current taxes, which are the taxes due for the current period, and deferred taxes, which are expected to be paid or recovered due to short term difference in accounting and tax rules (IFRS Foundation 2024, para. 1). The major aim of IAS 12 is to require that income taxes be reflected in a complete and reliable manner in the firm's financial standing and results.

It is possible for a company to calculate its accounting profit and find out that the amount differs from the amount of its taxable profit. It takes place because certain costs or wages are accounted for differently by tax laws and reporting rules. The resulting deferred tax assets or liabilities vary based on the differences. Deferred tax assets come into existence when a company has paid more taxes than it required to or has incurred tax losses that it can later apply to lower tax payments. In the case where a company has temporary differences which are likely to lead to higher taxes at some future date, a deferred tax liability will arise (IFRS Foundation 2024, 24). For example, if a company deteriorated an asset more quickly for

tax reporting than for accounting reporting, this would mean that the company will owe less taxes, at least temporarily, but later, will have to pay more with a deferred tax liability.

According to IAS 12, a company must recognize deferred tax obligations arising from taxable timing differences, excluding certain specified exceptions, such as acquisition-related goodwill that does not influence taxable profits (IFRS Foundation 2024, para. 15). Deferred tax assets may only be recognized when the company is expected to have future profits to which they can be applied. If there is uncertainty, the company might need to reconsider to determine whether it could recognize a deferred tax asset (IFRS Foundation 2024, para. 37).

The standard also explains how to measure deferred taxes. The amount recorded should reflect taxation rates that are likely to be in force at the time the temporary differences are reversed. Taxation rates should be included in financial statements as events occur (IFRS Foundation, 2024, para. 46). Moreover, IAS 12 demands that the companies apply the same mechanism in the treatment of tax effects as they do for the underlying transactions. If the item is booked as income or expense, its related tax effect should also book as income or expense. Tax effects must follow the same recognition path as their related items when transactions are recorded in OCI (other comprehensive income) or equity, the corresponding tax impacts should similarly be recognized in OCI or equity. (IFRS Foundation 2024, para. 58). IAS 12 also addresses presentation and disclosure requirements. Assets and liabilities associated with tax should be presented separately in financial statements and companies should provide sufficient details enabling proper interpretation of income tax influences on their financial position and financial performance (IFRS Foundation 2024, para. 71). Moreover, if a company is impacted by new tax rules, for example, the OECD's Pillar Two model, those companies may also have to disclose more about their tax position (IFRS Foundation 2024, para. 88A).

According to FAS, deferred tax liabilities and assets are accounted for by applying temporary differences resulting from variations between book and tax valuations. As per Finnish accounting law mentioned in section 18 of chapter 5, deferred tax assets may be recorded when there are high chances of generate sufficient income subject to taxation in the future to set off the deductible temporary differences. This means that tax benefits are not overstated using this conservative approach. However, deferred tax liabilities typically arise in connection with all taxable timing differences, such as differences in depreciation or untaxed reserves. The FAS allows for netting of deferred tax balances that arise from the same tax authority. Unlike the requirement that is mandatory under IFRS to recognize deferred taxes for all temporary differences, FAS provides discretion in recognizing deferred tax assets and liabilities to follow the principle of prudence in financial reporting (Accounting Act 1336/1997, Chap. 5, S. 18).

#### 4.2.2 Impact on Company

Under FAS, Betolar did not recognize any deferred tax assets. However, the company is needed to account for deferred tax assets associated with its tax losses and IFRS adjustments, under IFRS. Consequently, at the transition date (1 January 2021), Betolar recognized deferred tax assets of EUR 462 thousand related to the estimated future tax benefits associated with its accumulated losses (Betolar IFRS Transition Report 2021, 9). Year ending 2021, the total recognized deferred tax asset grew to EUR 1.5 million, mainly through additional losses recorded during the year (Betolar IFRS Transition Report 2021, 9).

Betolar's financial results also included deferred tax adjustments under IAS 12. According to its IFRS financial statements, the company included a EUR 1.46 million adjustment for deferred taxes in the company's net profit, which improved its net profit compared to FAS-based reporting (Betolar IFRS Transition Report 2021, 9). This is because recording deferred tax assets reduces the overall tax expense reported on the income statement.

#### 4.3 Non-controlling Interest

##### 4.3.1 IFRS vs FAS

IFRS10 give advice on the accounting treatment which the companies are required to adopt regarding the treatment of non-controlling interests (NCI) in the consolidated financial statements. NCI represents the equity stake in a subsidiary not attributable to the parent company, which must be recorded in the consolidated financial reports. According to IFRS 10, it intends to provide a true and fair view of the financial position and interests of both majority and minority shareholders (IFRS Foundation 2024, para. 2).

IFRS 10 states that if a parent company controls a subsidiary, then the parent must consolidate its financial statements with that of the subsidiary, with all the assets, liabilities, income, and expenses of such subsidiary including into the consolidated accounts. The subsidiary's profits, losses, and other comprehensive income (OCI) should be split between the parent company and the non-controlling shareholders based on how much of the business each one owns. However, while a negative NCI balance indicates that a company owes more to minority shareholders than it has in equity, the NCI must still be recorded in equity so that the share of losses by the minority shareholders is recorded in the equity section of the balance sheet (IFRS Foundation 2024, para. 23). This is different from some of the local accounting practices where losses are not always treated as being allocated to non-controlling interests.

It also explains how changes in ownership should be reflected in the books. If a parent increases or decreases its ownership percentage in a subsidiary but still retains control over

the subsidiary, the adjustment should be recorded in equity rather than in profit or loss (IFRS Foundation 2024, para. 25). It means that buying out minority shareholders or the issue of new shares in a subsidiary does not impact on the reported earnings of the company because its reported earnings remain the same, but only the equity of the parent company is adjusted. However, if the parent loses control over the subsidiary, the subsidiary's assets and liabilities must be derecognized from the consolidated balance sheet and any remaining ownership interest must be recognized at fair value, resulting in any gain or loss being recognized in profit or loss (IFRS Foundation 2024, para. 33).

Moreover, as per IFRS 10 detailed disclosures about non-controlling interests must be made in order to provide transparency. Under IFRS, companies must disclose the NCI, the profit or loss allocated to NCI, and any restrictions on the transfer of funds between the subsidiary and its parent company (IFRS Foundation 2024, para. 40). These disclosures inform the investors and stakeholders about the financial effect of minority ownership on the group's financial situation.

Under FAS, NCIs are recognized separately in the accounting reports when it comes to loss making companies. According to accounting guidelines, losses distributed to the non-controlling interests are not allocated beyond the equity portion held by the minority shareholders, which ensures that minority shareholders do not carry negative equity. This approach is in line with the principle of prudence in Finnish financial reporting (Finnish Accounting Act 1336/1997, Chap. 6, S. 7).

#### 4.3.2 Impact on Company

Under IFRS 10, Betolar was required to allocate all profits and losses between parent company and non-controlling interests (NCI) regardless of whether a subsidiary was profitable or not (IFRS Foundation 2024, para. 23). This is different than Finnish Accounting Standards (FAS), where Betolar only recognized NCI in loss making subsidiaries. Therefore, the transition to IFRS resulted in the company having to change its equity treatment (Betolar IFRS Transition Report 2021, 10).

IFRS 1 does not allow for retroactive adjustments for first-time adopters and consequently Betolar did not retrospectively separate non-controlling interests in the opening IFRS balance sheet. However, Betolar allocated an EUR -4 thousand share of the net loss for the fiscal year 2021 to non-controlling interests as required by IFRS (Betolar IFRS Transition report 2021, 10).

During 2021, Betolar redeemed the non-controlling interests (NCI), which means that the remaining NCI was absorbed into the parent company's equity (Betolar IFRS Transition Report 2021, 10). Additionally, Betolar recognized the goodwill of EUR 127 thousand related to acquisitions that was amortized under FAS. Although IFRS requires that goodwill be not

amortized but instead tested for impairment (IFRS Foundation 2024, para. 33). As the change ownership did not result in loss of control, IFRS 10 required that the goodwill recognized as cost under FAS to be reclassified to the equity and the amortization previously recorded under FAS to be reversed (Betolar IFRS Transition Report 2021, 10).

#### 4.4 Share-based Payments

##### 4.4.1 IFRS vs FAS

The accounting rule known as IFRS 2 establishes methods for companies to handle share-based payments when they award stocks or stock options to workers or outside groups for compensation purposes (IFRS Foundation 2024, para. 1). IFRS 2 requires organizations to report share-based payments correctly in their financial statements for stakeholders to understand their financial effect.

The application of IFRS 2 becomes mandatory when companies compensate employees or suppliers through shares or options regardless of transaction settlement type (equity-settled, cash-settled, or combined) (IFRS Foundation 2024, para. 2). Under equity-settled arrangements companies grant stock or equity options to employees and suppliers in return for their services provided. A cash-settled transaction involves the company paying its suppliers or employees a value of shares instead of giving away actual shares. Organizations that face the option to either provide cash payments or distribute shares need guidelines from IFRS 2 to determine appropriate accounting procedures (IFRS Foundation 2024, para. 10).

Share-based payments transactions made by companies require expense recognition in their income reports. Organizations determine share-based payments values based on fair market value at the time of granting the instruments (IFRS Foundation 2024, para. 16). When payments depend on service performance like employee share grants requiring a three-year work requirement, the company must distribute these costs throughout the entire period (IFRS Foundation 2024, para. 14).

When companies pay employees with cash for their shares, they must account for these transactions through liabilities rather than equity. The company measures this financial liability at every reporting date by valuing the shares until the payment is settled (IFRS Foundation 2024, para. 30). This means an increase in the company's stock price results in a higher reported value in the accounting reports.

The rules under IFRS 2 define the accounting methods for both share-based payments updates and terminations. A company needs to correct its financial statements when it modifies or cancels share option terms (IFRS Foundation 2024, para. 26). When a payment modification

results in higher value than the additional expense needs to be included in the total payment cost. When an employee leaves before the share option conditions are met the company will not recognize further expenses per IFRS Foundation 2024 (para. 19).

The tax-related rules for share-based payments are specifically addressed under IFRS 2. Some organizations enable employees to use their share balance as partial tax payment. The transaction qualifies as equity-settled payment with the exception that payments dedicated to tax obligations are classified as liabilities according to IFRS Foundation para. 33E (2024).

Finnish Accounting Standards (FAS) do not have a clear definition for share-based payments. But, the Finnish Accounting Board (KILA) has published guidelines on how companies should manage them. According to a decision by KILA (2020), if a company gives shares to employees as part of a share incentive plan, it is considered a share issue under Finnish corporate law. This means the company can either issue additional shares or allocate existing treasury shares to employees. The Limited Liability Companies Act (624/2006) states that companies can issue shares for free or for payment (Limited Liability Companies Act 9:1). However, the law does not allow companies to issue shares as direct compensation for work or services (Limited Liability Companies Act 9:12). This means that, under Finnish rules, share-based payments must not rely entirely on work performance.

FAS does not provide direct rules on how to value share-based payments. However, KILA has stated that if shares are issued against payment, they should be recorded according to the actual expenses from the arrangement (Kirjanpitolautakunta, 2020a).

FAS also treats share-based payments differently depending on how they are managed. If the entity itself acquires and transfers its own shares to employees, this is considered a share issue, and the cost is not recorded as an expense in the profit and loss report. Instead, the expense is recorded when the option terms are met, but not before (Kirjanpitolautakunta, 2020b). If an external company manages the share-based payments plan, the cost is recorded as a personnel expense when the shares are finally given to employees (KILA 2009/2020). If there are tax liabilities from the share plan, they must be recorded as an expense in the year when the tax obligation arises, similar to payroll expenses (Kirjanpitolautakunta, 2020a).

FAS also require companies to disclose details about their share-based incentive plans in their annual reports. Companies must provide a note explaining the main terms of their stock option plans, both past and present (Kirjanpitolautakunta, 2020a). Additionally, Finnish listed companies must publish a remuneration report that clearly shows how much has been paid to institutions in the previous fiscal year (Arvopaperimarkkinayhdistys ry, 2019).

#### 4.4.2 Impact on Company

As per IFRS 2, companies need to record share-based payments as expenses in their income statement and simultaneously create a corresponding entry in equity if they use stock as payment or a liability if they settle with cash (IFRS Foundation 2024, para. 10). Company must distribute the expense throughout the vesting period that measures the required employment duration before employees obtain stock options (IFRS Foundation 2024, para. 13).

Under FAS Betolar excluded all expenses related to share option programs. Per IFRS 2 companies need to record the fair value of employee stock options as financial expenses that must be spread across the vesting period (Betolar IFRS Transition Report 2021, 10). To meet IFRS reporting requirements Betolar evaluated the stock option fair value and recorded EUR 220 thousand expense in its opening balance sheet starting on 1 January 2021. Additionally, Betolar recorded total share-based payments costs worth EUR 1.2 million during fiscal year 2021 which led to lower EBITDA numbers than those of the FAS financial statements (Betolar IFRS Transition Report 2021, 10).

#### 4.5 Inventories

##### 4.5.1 IFRS vs FAS

IAS 2 defines procedures for recording and measuring inventory items that appear in financial statements. The various categories of inventory include goods held for sale as well as materials used in production and unfinished work-in-progress products (IFRS Foundation 2024, para. 6). The primary objective of IAS 2 focuses on maintaining accurate inventory valuation to deliver an accurate picture of the company's financial position.

Under IAS 2, inventories must be valued at the lower of their historical cost or net realizable value. The company needs to modify inventory values by using the decreased market value amount if this value falls below original purchase costs (IFRS Foundation 2024, para. 9). The total cost of inventories includes purchase cost, production cost and other cost for preparing items for market distribution (IFRS Foundation 2024, para. 10). Costs relating to inventory storage together with administrative expenses and selling expenses do not affect inventory valuation (IFRS Foundation 2024, para. 15).

When companies need to determine inventory cost, they use different cost formulas including First-In, First-Out (FIFO) and weighted average cost method. FIFO determines inventory movement by selling older products first, but the weighted average cost method applies a uniform average cost to all inventory products (IFRS Foundation 2024, para. 25). The specific

identification method applies specifically to inventories that include non-interchangeable items as well as large expensive goods (IFRS Foundation 2024, para. 23).

After sales of products, the company reports inventory costs as expenses through their financial statements. Companies that experience inventory value declines must adjust their records through write-downs to reflect these new lower values. The company can reverse a previous write-down value if the value increases again in the future, but only up to the original cost (IFRS Foundation 2024, para. 34).

IAS 2 does not apply on financial instruments or agricultural products or minerals because other standards regulate these items (IFRS Foundation 2024, para. 2). The standard offers guidance regarding disclosure requirements, which means companies must explain how they do valuation of inventories and how they made any changes in valuation (IFRS Foundation 2024, para. 36).

According to the Finnish Accounting Act, stocks or inventories include goods intended for sale, transfer, or consumption in their existing state or after processing. The acquisition cost of stocks must include direct costs attributable to purchase, production, or construction, and may also include a reasonable portion of indirect costs if they can be verified through cost calculations. Also, interest expenditure on loans used for the finance stock production during the production period can be recognized as a component of the purchase cost. When it comes to valuation, stocks of the same category are often assumed to be delivered in the order in which they were acquired (FIFO), or in the reverse order (LIFO), unless the company justifies using another method. Companies may alternatively choose to apply the weighted average acquisition cost method or another widely accepted valuation method in keeping with good accounting practices (Finnish Accounting Act 1336/1997, Chap. 4, S. 4).

#### 4.5.2 Impact on Company

Inventory must be assessed at the lowest value between their purchase price and net realizable value. This means if the expected selling price of an item drops below its recorded cost, the companies need to reduce inventory values to reflect expected lower selling prices (IFRS Foundation 2024, para. 9).

The inventory at Betolar consisted of equipment from past business activities. In accordance with IAS 2.6 the equipment from previous business operations failed to qualify as inventory because it was not related to the company's ordinary business activities and no intention for sale existed (Betolar IFRS Transition Report 2021, 10). Betolar needed to write off its entire inventory value to zero in its IFRS financial reports.

According to FAS these inventory items remained on the balance sheet as part of the company's accounting reports. But, according to IAS 2 the inventory items had to be fully removed from the financial statements creating EUR 9 thousand adjustments both on 1 January 2021 and 31 December 2021 (Betolar IFRS Transition Report 2021, 10). The adjustment reduced total assets and maintained only valid inventory items within the balance sheet.

Since Betolar fully wrote off its inventory which meant no inventory valuation changes or reversals would affect future reporting periods.

#### 4.6 Borrowing Costs

##### 4.6.1 IFRS vs FAS

The accounting standard IAS 23 defines the proper financial record keeping for borrowing costs together with loan-related interest and related expenses. The main goal of IAS 23 consists of properly recording borrowing costs that relate to specific assets within financial reports (IFRS Foundation 2024, para. 1).

Borrowing costs become capital expenses according to IAS 23 when they connect directly to buying or producing or building qualifying assets. A qualifying asset represents assets requiring extended periods for readiness including buildings, factories, and broad infrastructure projects (IFRS Foundation 2024, para. 5). Borrowing costs for these qualifying assets become part of their acquisition cost instead of being recorded as expenses. These costs are incorporated into the asset's total valuation method which spreads their recognition throughout the asset's useful life.

General borrowings that are not a direct link to a particular asset require companies to establish a capitalization rate by averaging the borrowing costs and apply it to the asset cost as per IFRS Foundation (2024, para. 14). A company that places borrowed funds into temporary investments, any earned income from that temporary investment must be deducted from borrowing costs (IFRS Foundation 2024, para. 12).

According to IAS 23 also provides a set of guidelines determining the proper timing for both beginning and ending capitalization of borrowing costs. The capitalization process becomes active after companies fulfill three essential requirements which include incurred borrowing costs and spent money on the assets and working on the asset's development (IFRS Foundation 2024, para. 17). When development or construction activities are stopped for extended periods, capitalization requirements need to be temporarily paused (IFRS Foundation 2024, para. 20). Capitalization must end when the asset is ready for use or sale even though some finishing touches remain incomplete (IFRS Foundation 2024, para. 22).

Companies must apply other accounting standards to reduce the recorded value of qualifying assets whenever the value of a qualifying asset drops below its recoverable amount (IFRS Foundation 2024, para. 16). Companies need to reveal both the amounts of capitalized borrowing costs, and the method used to calculate them (IFRS Foundation 2024, para. 26).

According to the Finnish Accounting Law, borrowing costs related to obtaining a loan, such as interest expenses and other financial charges, these costs are required to be recorded as financial expenses in the profit or loss reports. However, capitalized borrowing costs associated with assets under construction are permitted if they meet the conditions set in the accounting regulations. Specifically, Section 10 of the Accounting Law states that the difference between the amount repayable in respect of a debt and the amount received, along with other comparable costs, may be capitalized prudently and must be amortized according to a predetermined plan, aligning with the repayment period of the debt (Finnish Accounting Act 1336/1997, Chap. 5, S. 10).

#### 4.6.2 Impact on Company

During Betolar's transition from FAS to IFRS, IAS 23 changed how the company accounted for interest on research and development (R&D) loans. Betolar was granted R&D loans to develop products. Under FAS, interest on these loans was recorded as a financial expense in the income statement. However, IAS 23 requires that the interest costs related to R&D projects to be capitalized as part of intangible assets, as R&D activities involve time taken before economic benefit is generated (Betolar IFRS Transition Report 2021, 10).

To comply with IAS 23, Betolar had to change its financial statements by including EUR 9 thousand of the interest of R&D loans under the heading 'Intangible Assets'. This had the effect of increasing the reported value of intangible assets and reduced the immediate impact on profit and loss. Therefore, Betolar's operating loss in IFRS was less than FAS, because a component of interest expenses was shifted to the balance sheet as development cost (Betolar IFRS Transition Report 2021, 10).

IAS 23 also requires for the disclosure of information regarding capitalized borrowing costs, for example, the amount capitalized, the interest rate used for capitalization and the relevant assets affected (IFRS Foundation 2024, para. 26).

### 4.7 Government Grant

#### 4.7.1 IFRS vs FAS

The IAS 20 is applicable to governmental financial support, whether monetary or non-monetary. It does not, however, include tax holidays and credits, government ownership or

participation in a company's business, or agricultural grants, as these are dealt with by IAS 41 (IFRS Foundation 2024, para. 1-2).

A government grant is financial help given by the government to a company on the condition that the company fulfills certain conditions that are specified. The grants will be assets related if they provide for the purchase or construction of long-term assets like buildings, machinery, or income related, if they assist in daily business operations (IFRS Foundation 2024 para. 3-7). A grant may be recognized in a company's accounting reports when the company is confident that it will meet the requirements needed to qualify for the grant and it is probable that the company will receive the money. While receiving the funds does not automatically mean that the company is allowed to record it as income, complying with the grant's conditions is equally important (IFRS Foundation 2024, para. 7-8).

If a government provides a loan with interest below the market rate, this financial advantage is considered a government grant. The IFRS 9 rules for financial instruments should determine how to record and measure the loan itself. The value of the benefit from the lower interest rate is the gap between the actual loan amount and its fair value under IFRS 9. Under IAS 20, this benefit is accounted for as a government grant. (IFRS Foundation 2024, para. 10A).

There are two methods by which companies can record government grants in their financial statements. The grant is at first recorded as a liability and then gradually recognized as income in line with the asset's depreciation under the deferred income approach. Alternatively, and by using the net off approach, the grant amount is offset against the asset's cost, reducing its carrying value and thereby reducing the depreciation expense. A grant related to income can either be show separate under 'Other Income' in the profit and loss statement or offset directly from related expenses (IFRS Foundation 2024, para. 24-30).

If a company breaches the conditions of a grant, it will have to repay it. The repayment of income related grants is deducted from the residual deferred income or charged as an expense. For asset related grants the repayment amount increases the value of the asset and additional depreciation is charged for the new carrying value (IFRS Foundation 2024, para. 32-33). The standard also addresses government assistance, which refers to non-financial support such as free technical advice or preferential government contracts. Even though it does not need to be recorded as a grant, such assistance must be disclosed if it has a material effect on the company's operations (IFRS Foundation 2024, para. 34-38).

Companies must disclose, including accounting policy for the treatment of grants, amounts that have been received, whether there are unfulfilled conditions or risk affecting the recognition of these grants. Further, these disclosures promote transparency and enable stakeholders to determine how government support affects a company's financial position (IFRS Foundation 2024, para. 39-40). The primary goal of IAS 20 is to make sure that

government grants are reported in a fair and consistent manner. Therefore, companies are permitted to recognize grants only when certain conditions are met, use an appropriate method of presentation, and provide clear disclosures in their financial statements.

As per FAS, government grants are financial support given by the government to businesses and other organizations to help with things like research, development, and business growth. These grants must be recorded properly in financial statements. If a grant is used to buy an asset, it is added into the asset's value and reduced gradually. If the grant is intended to cover daily costs, they are recorded as income at the moment when the costs arise. The law ensures that it is clear and accurate what the financial records have. Section 14 of Chapter 5 explains that grants related to specific obligations should be recorded in the year that the obligation arises, while Section 17 establishes that grants are accurately reflected in the accounting reports. For this purpose, the financial reporting of the business becomes fair and transparent (Finnish Accounting Act 1336/1997, Chap. 5, S. 14 & 17).

#### 4.7.2 Impact on Company

In the case of Betolar, the company received a product development loan under state treasury in 2021 fiscal year. The loan amount was EUR 360 thousand and received at a rate of interest lower than the market rate (Betolar IFRS Transition Report 2024, p. 11). In terms of FAS, such loans are usually accounted for at a nominal value. However, under IAS 20, it needs to be recognized as a government grant where an entity receives a government loan at a below market rate of interest (IFRS Foundation 2024, para. 10A).

According to IAS 20, Betolar had to recognize the grant portion separately. The Company estimated the market interest rate would prevail as a reflection of its financial situation and market situation prevailing over the relevant period. A government grant was recorded for the difference at initial recognition between the fair value of the loan and the actual loan value. For Betolar, this grant was valued at EUR 90 thousand (Betolar IFRS Transition Report 2024, 11). At the time, this amount was identified as deferred income and will be recorded as income over time to correlate with the related development expenses against the grant.

According to IAS 20, companies are also required to disclose full and sufficient information about government grants including their nature, amounts and how they are accounted for in the financial statement (IFRS Foundation, 2024, para. 39).

## 4.8 Listing Expenses

### 4.8.1 IFRS vs FAS

Accounting standard IAS 32 explains how companies must classify and present financial instruments including shares, bonds, and loans in financial statements. Furthermore, the main objective of IAS 32 is to identify whether a financial instrument should be recorded as a financial asset, or a financial liability or equity (IFRS Foundation 2024, para. 2). It enables companies to provide clear and consistent data about their financial position.

According to IAS 32, a financial asset is any asset that results in a right to future cash flows or other monetary instruments. It consists of cash, shares in other companies and accounts receivable. Financial liability is an obligation for payment with cash or other monetary assets like bonds, loans, and accounts payable (IFRS Foundation 2024, para. 11).

The key principle in IAS 32 is that the classification of a financial instrument should be determined by its substance and not its form as defined by contract. For example, according to the legal view, some preference shares look like equity, but when the redemption is required on mandatory basis, these should be treated as liabilities (IFRS Foundation 2024, para. 15).

The IAS 32 also deals with compound financial instruments, which consist of both liability and equity parts, like a bond that is convertible into company shares. When it comes to such cases, the liability part (the obligation to pay interest) should be kept separate from the equity part (the right to convert into shares) (IFRS Foundation 2024, para. 28).

There is another important rule in IAS 32 concerning offsetting financial assets and liabilities. The net basis is the only allowed method for reporting financial instruments (by offsetting assets against liabilities) if a company has a legal right to do so and if it intends to settle both on the same time (IFRS Foundation 2024, para. 42).

The standard also defines treasury shares when a company buys back its own shares. These shares must be deducted from equity and any gain or loss from reselling such shares should not be recorded as profit or loss (IFRS Foundation 2024, para. 33). It is important to illustrate also that dividends and interest on financial instruments must be classified correctly, interest on liabilities is an expense, while dividends on equity instruments are deducted from equity (IFRS Foundation 2024, para. 35).

In addition, IAS 32 prescribes the guidance for determining the accounting for listing costs, which are the costs incurred when a company issues its shares on a stock exchange. The costs

consist of legal fees, regulatory fees, underwriting fees, and other professional services relating to the listing process.

However, as per IAS 32 listing costs must be classified in accordance with their nature, i.e., relating to the issuance of new shares or for the company's ongoing listing status. If costs are linked to the issuance of new shares, they should be deducted from equity and not charged as an expense on the income statement (IFRS Foundation 2024, para. 37). These costs are included because they reduce the net proceeds from issuing shares and should be reflected in the share capital or share premium account.

On the other hand, if the listing costs are about keeping the company's listing on the stock exchange rather than issuing the new shares, they are booked as an expense under the income statement. Some examples are annual stock exchange fees, investor relations expenses, and compliance costs (IFRS Foundation 2024, para. 35).

If a company is both issuing new shares and using existing shares, the listing costs must be allocated between equity and expense according to their relevance in each of these activities. For instance, suppose a company spends EUR 1 million to list and 60 percent of that amount is about issuing new shares. In that case, EUR 600 thousand would be deducted from equity and EUR 400 thousand would be treated as an expense (IFRS Foundation 2024, para. 39).

As per FAS, Listing costs refer to the expenses that a company pays when it decides to launch its shares to the public and lists them on a stock exchange. This normally consists of legal, advisory, and regulatory fees and listing fees on stock exchange. The Finnish Accounting Act states that listing costs are formation costs and can therefore be treated as expenses in the year where they occur. According to the law these expenses must be fully expensed and not capitalized, it means they are not recognized as assets in the financial statements (Finnish Accounting Act 1336/1997, Chap. 5, S. 7).

#### 4.8.2 Impact on Company

IAS 32 offers rules for classifying and presenting financial instruments, which includes equity transactions and listing costs. As Betolar transitioned from FAS to IFRS, IAS 32 had a significant impact on how Betolar accounted for listing costs related to an Initial Public Offering (IPO).

However, according to IAS 32, transaction costs that result directly from issuance of new shares must be deducted from equity, not recorded in the income statement as an expense

(IFRS Foundation 2024, para. 37). Under FAS, such costs were treated as operating expenses and therefore reduced profit for the period. In 2021, Betolar incurred EUR 3.4 million of listing costs which were initially recorded as an expense in accordance with FAS. Consequently, under IAS 32, since these costs could be specifically related to the issuance of a new share in IPOs, these had to be reclassified as a reduction from equity in the reserve for invested unrestricted equity (Betolar IFRS Transition Report 2021, 11).

IAS 32 also states that only costs related to the transaction, including legal, regulatory, and underwriting expenses, can be deducted from equity. The remaining other costs, such as marketing expenses, investor relations events (e.g., roadshows), tax advisory services, or internal costs, must be still recognized in the income statement as an operating expense (IFRS Foundation 2024, para. 39). When evaluating this deduction from equity in Betolar's case, EUR 465 thousand which are listing related expenses have not met the criteria for deduction from equity and were recorded in other operating expenses (Betolar IFRS Transition Report 2021, 11).

Furthermore, under IAS 32 their own shares repurchased (treasury shares) cannot be recognized as assets. Therefore, they are deducted from equity (IFRS Foundation 2024, para. 33). During Betolar's transition, a change was made to take treasury shares into account correctly, as required according to IFRS rules.

## 5 Conclusion

This thesis has carefully compared the Finnish Accounting Standards (FAS) and the International Financial Reporting Standards (IFRS). It has shown the important differences between them and explained what this means for Finnish companies, particularly in the case study of Betolar Plc. Shifting from FAS to IFRS is not just a matter of changing technical accounting rules. It is a much bigger shift, a change in how companies view their financial reporting, their transparency, and even their relationship with investors.

### 5.1 Key Findings

One substantial finding is that FAS and IFRS are built on different ideas. FAS mainly focuses on national taxation rules and historical cost accounting (Virtanen 2004; Jarva & Lantto 2012). Its main users are tax authorities and local stakeholders. IFRS, on the other hand, focuses on giving a true and fair view of a company's financial position for international investors and markets. It uses more fair value accounting (IFRS Foundation 2024). As a result, financial statements are prepared quite differently.

This study also showed that FAS either does not have rules for many situations (absence) or treats things differently (divergence), compared to IFRS (Jarva & Lantto 2012; Ding et al. 2007). Examples include how leases, deferred taxes, share-based payments, and government grants are recorded. In addition, thirteen major differences between FAS and IFRS are examined in Table 1.

Moreover, this thesis largely consisted of a case study of Betolar Plc, a Finnish company that transitioned from FAS to IFRS. The Betolar Plc case clearly showed that IFRS adoption caused many changes in their financial statements, and these were not small changes. IFRS accounting led to new assets and liabilities appearing, profits being reported differently, and financial ratios changing (Betolar IFRS Transition Report 2021). The case study findings show several material adjustments in the financial statements arising from the application of IFRS accounting policies, each showing how these accounting differences have practical importance. There are noticeable differences in leases, deferred tax, share-based payments, inventory, government grant, listing expenses and financial adjustments. The reason for these differences is that FAS and IFRS have different standards about when and how often to report finances, as well as how to manage taxes.

## 5.2 Results

From Betolar's transition, several important results were seen:

Under FAS rules, Betolar reported lease payments as operating expenses and lease obligations were disclosed as an off-balance sheet. Under IFRS 16, Betolar had to recognize right-of-use assets and lease liabilities, which increased both assets and liabilities (Betolar IFRS Transition Report 2021; IFRS Foundation 2024). Additionally, lease expenses were reclassified from operating costs to depreciation and interest, which led to higher EBITDA but lowered the equity ratio because of the higher financial debt.

Under IAS 12, IFRS requires deferred taxes for *all* temporary differences, whereas FAS only recognizes deferred taxes when timing differences exist. When Betolar transitioned to IFRS accounting, it recognized its accumulated tax losses as deferred tax assets. Under FAS, these treatments are not permitted at all. Because of this IFRS approach, Betolar's financial results appeared stronger. It showed the future tax benefits available when the company returns to profitability (Betolar IFRS Transition Report 2021; IFRS Foundation 2024).

Under IFRS 10, Betolar was required to allocate all profits and losses to non-controlling interests (NCI), even if this led to negative balances, and goodwill had to be tested annually for impairment instead of being amortized (IFRS Foundation 2024; Betolar IFRS Transition Report 2021). Under FAS, Betolar only recognized NCI up to the minority equity amount and

amortized goodwill systematically. As a result, Betolar reported higher equity and a more transparent ownership structure.

Under IFRS 2, share-based payments (e.g., stock options) must be recognized as expenses at fair value, thereby reducing EBITDA, whereas FAS often excludes them and discloses them only in notes. Under IFRS, Betolar recorded EUR 1.2 million in annual compensation, revealing hidden costs. Also, it increases transparency by spreading expenses over vesting periods and requires detailed disclosure, not like limited reporting under FAS (Betolar IFRS Transition Report 2021; IFRS Foundation 2024).

Equipment from the previously discontinued business was capitalized under FAS but was written off under IFRS (IAS 2) because it no longer met inventory criteria. FAS allowed these items to remain on the balance sheet, resulting in overstated asset values (Betolar IFRS Transition Report 2021; IFRS Foundation 2024).

Under IFRS (IAS 23), interest paid on qualifying loans (like for R&D projects) for qualifying assets is capitalized, while under FAS such interest costs are expensed immediately. For Betolar, this meant R&D loan interest increased asset values under IFRS rather than reducing profits under FAS, so their balance sheet looked better and more accurately reflected their true project costs (Betolar IFRS Transition Report 2021; IFRS Foundation 2024).

IFRS (IAS 20) requires grants to be recognized when grants are probable and linked to conditions, whereas FAS records them upon receipt. FAS approaches grant as simple income, while IFRS provides two accounting methods (deferred income or asset deduction). Under IFRS, Betolar's below-market R&D loan was partially reclassified as a grant, showing its true subsidy nature. In contrast, FAS would have treated the entire loan amount as debt, overlooking its economic benefit (Betolar IFRS Transition Report 2021; IFRS Foundation 2024).

Under IFRS (IAS 32), IPO costs were transferred from operating expenses to equity deductions. While this improved short-term profitability, it had a negative impact on equity reserves, showing how the accounting standard prioritizes transaction-related accounting treatment (Betolar IFRS Transition Report 2021; IFRS Foundation 2024).

In every case, IFRS tried to show the real economic situation of the company, not just the legal or tax situation (IFRS Foundation 2024; Lantto & Sahlström 2009).

### 5.3 Reflections and Remarks

Looking beyond the numerical impact, IFRS adoption has larger effects on companies. IFRS reporting makes companies more open and easier to compare internationally, which builds investor confidence (Nobes & Parker 2002; Lantto & Sahlström 2009). However, the transition

comes with significant costs and operational burdens, requiring updates to systems, processes, and employee training (Pirinen 2005; IFRS Foundation 2024). Further, financial indicators like profit, EBITDA, and debt ratios can change a lot after IFRS adoption. Companies must explain these changes carefully to investors. On the positive side, IFRS helps managers make better business decisions by showing more accurate financial information (IFRS Foundation 2024). On the other hand, for small businesses, the cost of IFRS adoption may be higher than the benefits unless they are planning to grow internationally (Jarva & Lantto 2012).

The Betolar case also shows that the biggest challenge was not technical accounting but the change in thinking needed inside the company, moving from focusing on taxes to one that prioritizes transparency and economic reality.

#### 5.4 Recommendations

Based on this research, Finnish companies planning a move to IFRS should do thorough preparation. The transition process should begin with identifying which accounting areas will change the most, such as leases, taxes, and share-based payments (Jarva & Lantto 2012; IFRS Foundation 2024). To ensure a smooth transition, companies should create a strong project team that includes people from the accounting, finance, tax, IT, and legal departments. Close collaboration among these teams is essential. Additionally, organize IFRS workshops for accounting teams and management to help them understand new concepts such as fair value, impairment testing, and deferred tax accounting (IFRS Foundation 2024).

Operational preparations are equally important. Companies need to evaluate and upgrade their accounting systems and ERP software to accommodate IFRS requirements, particularly for lease assets, stock options, and fair value measurements (IFRS Foundation 2024). Hiring IFRS experts for the first transition year can help avoid costly mistakes, especially in difficult areas like financial instruments and share-based payments. Transparency with stakeholders is equally important. Companies must proactively communicate to investors and lenders how the transition may impact financial statements and key performance indicators (KPIs) (Nobes & Parker 2002).

Before publishing real IFRS financial statements, companies should run a "test" reporting period internally to catch any surprises. Note that IFRS reported profits may diverge significantly from taxable profits, necessitating advance coordination with tax authorities (Pirinen 2005). Finally, IFRS requires much more detailed explanations in financial statement notes. Companies must be ready for this. IFRS standards are updated often. Companies must assign someone to monitor IFRS changes regularly (IFRS Foundation, 2024).

## 5.5 Final Thoughts

In the end, this research shows that IFRS adoption offers long-term advantages for Finnish companies. It improves financial reporting quality, builds global investor trust, and strengthens companies' ability to compete internationally.

However, success depends on how well the company prepares for the transition. Companies like Betolar, which took the transition seriously and made the needed cultural and operational changes, are better positioned for global growth.

Thus, moving from FAS to IFRS is not just about new accounting rules. It is about a new mindset, focusing on transparency, comparability, and economic reality. Companies that understand and embrace this shift will have stronger opportunities in the global business world.

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