Impact of IFRS on accounting quality in Finland:

Correlation between Net Income and Operating Cash Flow after the adoption of IFRS in Finnish companies

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Degree Thesis
International Business
2011

DEGREE THESIS	
Arcada	
Degree Programme:	International Business
Identification number:	14197
Author:	Modasser Karim
Title:	Impact of IFRS on accounting quality in Finland: Correlations between Net-income and Operating cash flow after the adoption of IFRS in Finnish companies.
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Abstract:

As a member state of the European Union, Finland is required to follow the common International Financial Reporting Standards (IFRSs) from 2002. In fact, most of the listed companies in Finland has complied with International Accounting Standard regulations since 2004. The differences between IFRSs and traditional Finnish expenditure-revenue accounting theory are revealed clearly in the calculation of fair value. Additionally, the strict requirements in IFRS makes an improvement in the preparation of consolidated financial statements of the Finnish companies. As more details and information are requested, Finnish financial reporting framework can be closer to the international capital market. However, it only qualitatively proves the positive changes in the Finnish financial reporting system, not the accounting quality.

To understand better the impact of IFRS, the quantitative research is carried out with the linear regression model. The survey over eight Finnish listed company's return the mix results while 50% of observations show the positive impact of IFRS. Despite the disadvantages of the small observations, the test suggests that the enforcement of IFRS does harmonize FAS with IAS, but insignificantly improve the accounting quality in the researched companies.

Keywords:	IFRS, FAS, accounting system, impact, differences, financial statements, net income, cash flow
Number of pages:	56
Language:	English
Date of acceptance:	29.05.2017

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ABBREVIATIONS:

GAAP	General Accepted Accounting Principal
IFRS	International Financial Reporting Standard
IASB	International Accounting Standard Board
NI	Net Income
OCF	Operating Cash Flow
FAS	Finnish Accounting System
OCI	Other Comprehensive Income
IAS	International Accounting System
POL	Profit or loss

INTRODUCTION:

This chapter will provide a general picture of the thesis content, purpose, target of the research, and the research quality.

Background and objectives:

This dissertation is a practice of the financial study. By focusing on the relation between GAAP and IFRS of the chosen country "Finland", the study expect to help the non-financial specialists understand the accounting system generally and comprehensively. The study will be divided in two main points: explaining the IFRS and Finnish accounting system theoretically, then using qualitative calculation to prove the impact of IFRS on Finnish case company.

Since 2005 when the IFRS come into force in Europe, it has significant change in the financial report quality internationally (Finanssivalvonta, 2014). As the consequence, the effect of IFRS on national accounting standards also gain the great concern from the experts globally (Ashbaugh and Pincus, 2001; Efobi, Matthias, Seilesh, and Francis, 2016). Remarkably, in 2002, the rule 1606/2002 has regulated the higher transparency in the financial statements of all the EU members. There were many researches released to survey the improvement of this regulation compared to the domestic GAAP (Jarva and Lantto, 2012; Ulrich 2012; Pajunen 2010; KPMG, 2015). Most of the researches returned the positive effect of IFRS to the nation accounting systems, proving that the European capital market was more efficient under the new directive.

The Framework 2010 from the IASB's Conceptual Framework has stated:

"The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decision about providing resources to the entity".

The Framework 2010 indicates the key elements for the effective financial information: relevance and faithful representation. To be practical, the provided financial information must satisfy both these qualitative characteristics. Apart from the qualitative characteristics, there are four complementary valuable features of the financial information, including: comparability, verifiability, timeliness and understandability. While the financial information should possess both the qualitative characteristics, it may not have all four complementary features at the same time. (Capital Markets Advisory Committee, 2013)

Regarding the qualitative characteristics, the relevant information can be defined as the visionary value, which can be utilized to predict the future outcomes. Also, the relevant information can be the confirmatory value, which can give the comparisons to the previous forecasts. On the other hand, the faithful representation means that the provided information is comprehensible, objective, and error-free. To be detailed, the information should have interpretation as well as numerical illustration. Notably, the "error- free" features requires the accurate in the information formatting process, but problems still can exist. (McConcell, 2011).

Based on the descriptions of the qualitative characteristics of the financial information, cash flow prediction can be used as the paramount indicator for the quality of accounting process (Vera and Simone, 2014). Jarva and Lantto (2012) showed in their study that the important component in cash flow prediction was the correlation between operating cash flow and net income. This dissertation will use the linear regression model to test the correlation between net income and operating cash flow before and after the application of IFRS in certain Finnish listed companies.

Apart from focusing on the quantitative comparison between IFRS and Finnish GAAP, this essay also provides the preview of the Finnish accounting system and the establishment of IFRS. The study aims at the non-accounting specialists by explaining and analyzing the accounting system in the understandable and comprehensive presentation.

Validity, reliability, and limitation:

Validity and reliability are the crucial indicators for the quality of the research. Even when the quantitative test can strongly prove the proposed hypothesis, if the validity and reliability of the research are weak, the result remain insignificant.

In general, validity can be defined as the consistency in the evaluation of the result. In other words, the concept or proposed hypothesis should have the same outcomes when the measuring procedure is replicated (Lee 1999). The validity can be categorized into internal and external validity. Internal validity refers to the comparability of the research model to the researched problem. The designed model should sufficiently measure or explain the target of the research. In this essay, we use the correlation between net income and operating cash flow before and after the adoption of IFRS as the measurement for the influence of IFRS on FAS. We expect this quantitative calculation has high internal validity since the differences we find in the result can well explain the effect of IFRS on the Finnish reporting quality.

External validity mentions the extendibility of the study. In order to be valid externally, the result of the study should be applicable for more than one subject, rather than only the research problem. Lee (1999) stated that the spaced study (study in advance, beyond the time) would have the stronger external validity. Since the study of this essay is based on the data in the past, we recognize the external validity is not strong enough.

When discussing the reliability in the scientific research, Walker (2011) believed that the following features are among the key determinants for the reliability of information:

There are multiple independent and authentic sources supporting the information: to avoid the redundancy of information, authors should gather then compare the details from different sources. Also, those references should come from the reliable publishers rather than random blog posts. The authenticity of information source is also important since in many paperwork, the writers transcribed the original data into their research. The degradation of information due to paraphrasing can happen, thus any fact or theory used in the essay should be compared to the original sources before applied. In this essay, the theoretical framework is mainly based on the information from the original publishers while the numbers used in calculation are withdrawn from the companies' own reports.

Information is written and published rather than the oral language: Walker (2011) suggested that the written information has better reliance than the verbal statements. In contrast to the verbal language, the written form has stronger comparability and higher accuracy because it can have clarifications from data table, chart, graph, and other displays which cannot be presented in the verbally.

Fink and Litwin (1995) divided the reliability into three categories:

Test-retest reliability: this is the most popular tool for measuring the stability of the result. By using the same procedure and method to calculate the groups of respondents at the different moments, we can evaluate the reliability of the research. The good test-retest reliability should have small deviation in results between the replicated tests.

Alternate- form: the reliability of the result can also be assessed through the parallel methods. For example, in this essay, we also list the result of the previous researchers in the similar subject. After the result is accumulated, we can compare it with the previous research to see the differences and similarity.

In the quantitative research, the internal consistency refers to the level of accuracy, replicability of the measuring method to calculate the results. In other words, the internal consistency indicates how the results behave in the repeated tests. Also, the accuracy level shows the correlation between the calculating method and the measured figures. This essay does not apply the replication to test the stability of result, but the accuracy level is evident since the indicators in the calculation are commonly used by many researchers to prove the similar objects.

However, in the quantitative research, the number of observations are small (eight chosen Finnish listed companies) and the time bound is limited in the 10-yesr period. Consequently, the findings just can enhance the qualitative arguments, not able to generalize for the whole accounting environment in Finland. Also, due to the time limited, the findings are meaning full within the researched time only, not beyond the future situation.

Research problems:

The thesis will explore the impacts of IFRS implementation in Finland from two perspectives: the qualitative discussion of the changes when employing IFRS into FAS, and the quantitative study of the improvement after the enforcement of IFRS in Finland.

Firstly, to explain the changes after Finland approve IFRS into the accounting framework, the thesis will give the general theoretical review of the basic financial elements and the foundation of IFRS. The differences between IFRS and FAS are also indicated to compare and highlight the effects of IFRS.

The quantitative study will focus on the correlation between net income and operating cash flow before and after the implementation of IFRS in Finland. The purpose of this measurement is to discover the changes in the accounting quality of the chosen Finnish companies when following the international standards. The primary hypothesis of this quantitative survey is that the approval of IFRS in Finland has positive influences on the accounting quality. In other words, the correlation between net income and operating cash flow would be stronger under IFRS compared to FAS.

LITERATURE REVIEW:

General knowledge of Financial Statement:

Financial statements can be defined as the accounting cycle, which includes a consequence of data-related procedures. To be simple, financial statements are the historical records of data in the business. Because it is impossible for the business' owners, investors, and creditors to evaluate the future potential of a business, the past information can give the hints to the future predictions.

There are three main purposes of the financial statements, concerning the important parties of the business: owners, external investors or customers, and government. The financial data presented under the financial statements can be used as the investing considerations for the investors. While the calculated earnings and costs are the key elements in decision making for owners or managers, tax information is the concern area of the governmental authorities.

The financial statements are divided into three sections: balance sheet, income statement, and cash flow statement. Those reports will mainly cover the questions: How much money came in? Where did money go? How much money left? Although three documents generated information from the past, they have the different properties, accounting methods, and functions.

Consolidated Income statement:

Firstly, the income statement, also called profit or loss statement, literally functions as its name: discovering the profitability of the business. By comparing the earnings and expenses during a certain time, this document will show the performance of the business. The primary purpose of income statement is to inform the investor the effectiveness of their investments. Besides, the revenues and expenses in the reports also remind managers of reducing costs and controlling interests from loans. (Team FME, 2013). Three components in an income statement are: Revenues, Expenses, and Net income.

Per the current requirements for reporting the profit or loss in IAS 2 Presentation of Financial Statement, the companies have two options to present their income statements:

Single statement of comprehensive income: in this case, all the gains and costs exposed in the calculated period are presented under same report

Two statements: which display two separate reports, one refers to the elements directly related to the measurement of profit are income and expenses; and another refers to the components of other comprehensive income (OCI). Some basic components of OCI are: gains and losses from the translation of foreign documents, changes in the fair values of hedging instruments, and the differences occurred in the actuarial activities.

(FASB, 1997)

To be clear, we will look at two examples of single and separate income statements. Example 1 Supposed Company A in year X has following revenues and expenses (currency: EUR):

Revenue 600.000

Exchange differences on translating foreign operations, net of tax 10.000

Actuarial losses on defined benefit pension obligations, net of tax 7.000

Loss from associates other comprehensive incomes 2.000

Cost of Sales 200.000

Distribution costs 50.000

Administrative expenses 15.000

Finance costs 20.000

Share of profit of associates 42.000

Loss for the year from discontinued operations 0

The consolidated income statement of company A is presented in two layouts

Separate Income Statement	Year X
Revenue	600000
Cost of Sales	-200000
Distribution costs	-50000
Administrative expenses	-15000
Finance costs	-20000
Investing costs	-12000
Share of profit of associates	42000
Profit before tax	**345000**
Income tax (30%)	-103500
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	241500
Loss for the year from discontinued operations	0
Total profit	**241500**
Profit is attributable to	
Owners of the company	120000
Non-controlling interests	121500
Basic earnings per share	0.50
Diluted earnings per share	0.45
Statement of comprehensive income for the year X	
Profit for the year X (stated above)	**24900**
Other comprehensive incomes	
Exchange differences on translating foreign operations, net of tax	10000
Actuarial gains or losses on defined benefit pension obligations, net of tax	-7000
Share of associates other comprehensive income	-2000
Other comprehensive income for the year, net of tax	**1000**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**242500**
Total comprehensive income attributable to	
Owners of the company	120300
Non-controlling interests	122200
Total	242500

Table 1. Separate Income Statement

Single statement of comprehensive income	Year X
Revenue	600000
Cost of Sales	-200000
Distribution costs	-50000
Administrative expenses (payment to employees and depreciation)	-15000
Finance costs	-20000
Investing costs	-12000
Share of profit of associates	42000
Profit before tax	345000
Income tax (30%)	-103500
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	241500
Loss for the year from discontinued operations	0
Other comprehensive incomes	
Exchange differences on translating foreign operations, net of tax	10000
Actuarial gains or losses on defined benefit pension obligations, net of tax	-7000
Share of associates other comprehensive income	-2000
Other comprehensive income for the year, net of tax	1000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	242500
Net income is attributable to	
Owners of the company	120000
Non-controlling interests	121500
Earnings per share (based on net income)	
Basic earnings per share	0.5
Diluted earnings per share	0.45
Total comprehensive income attributable to	
Owners of the company	120300
Non-controlling interests	122200
Total	242500

Table 2. Single Income Statement

Cash flow statement:

Cash flow statement provides information of the ability of an entity in generating cash through the business activities. The report also shows the available cash in the capital, informing the owners of the investment affordability. Collaborating with other reports in the financial statements, the statement of cash flow offers an effective tool to evaluate the liquidity and solvency of a business through the changes in the net assets. By comparing the historical cash flow reports, users can evaluate the future potential of a business and inspect the accuracy of the previous forecasts. In this dissertation, the information in the cash flow statement is utilized to predict the future performance of the case company. (European Commission, 2010).

The International Accounting System announced the IAS 7 Statement of Cash Flow in 1997, regulating the common format and uses of the cash flow statement. As it is required, the presentation of cash flow statement is an integral part of the financial statements, consisting of inflows, outflows, and cash equivalents. Regarding the categories of activities, the sources of cash flow can be divided into three groups: Operating activities, investing activities, and financing activities.

(IFRS Staff Paper, 2013)

Operating activities refer to the major revenue-generating transactions in a business rather than the investing or financing activities. Consequently, cash from customers' purchase and payment in cash to the suppliers and employees are considered as operating cash flows (IAS 7.14).

Investing activities include the trading of long-term assets and other investments rather than the cash equivalents. Cash equivalents are defined as the short-term, highly liquid properties, which can be traded for cash at any time. (IAS 7.6)

Financing activities call for the changes in the capital structure. (IAS 7.6). For example, borrowing loan to finance the new business activities is one type of financing cash flow.

The entities can present the cash flow statement either directly or indirectly. The direct method will mention the main categories of cash received and cash paid. To notice the differences between two options, we can look at this example below.

Example 2 Supposed the Company A (same company in the Example 1) has following information of cash flow:

200000 EUR costs of sales are paid 100000 EUR in cash and 100000 EUR in invoice to suppliers

50000 EUR distribution costs are paid 20000 EUR in cash, the rest is invoiced

600000 EUR of revenue came partly from cash from customers, sales of equity, and commission. The rest are paid in invoice. Note: bank loan is not calculated as profit

20000 EUR of Finance costs are divided into loan installment and issuing shares, all paid through bank transfer

To keep the presentation simple, the example will not take the discontinued period into account

Column1	Categories	Activities	In cash (EUR)
Cash outflow	From Operating activities	Cash paid to employees	12000
		Cash paid to suppliers	100000
		Income tax	103500
		Distribution expenses	20000
	From Financing activities	Loan installment	5000
		Issuing shares	15000
		Non-controlling interest	122200
	From Investing activities	Costs of equipment	4000
		Purchases of property, intangibles and other long-term assets	8000
Cash inflow	From Operating activities	Cash received from customers	200000
	From Financing activities	Bank loan	200000
	From Investing activities	Commission from investments	100000
		Sales of equity	150000

Table 3. Data for example 2

We can write down the cash flow statement in two different methods below

Cash flow from operating activities	
Net income	242500
Adjustment for non-cash transactions	
Invoice paid to suppliers	100000
Distribution costs paid in invoice	30000
Finance costs	20000
Investment costs	12000
Payment from customers paid in invoice	-400000
Other comprehensive income	-1000
Cash generated from operation	-35500
Cash flow from Financing activities	
Loan installment	-5000
Issuing shares	-15000
Bank loan	200000
Acquisition of non-controlling interest	-122200
Cash generated from financing activities	-122200
Cash flow from investing activities	
Commission from investments	100000
Sales of equity	150000
Costs of equipments	-4000
Purchases of property, plant and equipment, intangibles and other long-term assets	-8000
Cash generated from investment	238000
Total cash flow at the end of year X	**77800**

Table 4. Cash Flow Statement - Indirect method

And here is the direct method :

Cash flow from operating activities	
Cash received from customers	200000
Cash paid to employees	-12000
Cash paid to suppliers	-100000
Income tax	-103500
distribution expenses	-20000
Cash generated from operation	-35500
Cash flow from Financing activities	
Loan installment	-50000
Issuing shares	-150000
Bank loan	200000
Acquisition of non-controlling interest	-122200
Cash generated from financing activities	-122200
Cash flow from investing activities	
Commission from investments	100000
Sales of equity	150000
Costs of equipment	-4000
Purchases of property, plant and equipment, intangibles and other long-term assets	-8000
Cash generated from investment	238000
Total cash flow at the end of year X	**77800**

Table 5. Cash Flow Statement - Direct method

From the example above, we can conclude that while the direct cash flow statement is more readable and understandable, the complex indirect cash flow provide an insight into the real cash-related activities in the business. Also, there is a notice that the difference between indirect and direct methods only occurs in the Operating Activities Section.

Balance sheet:

Balance sheet or financial position statement presents a financial picture an entity, including the assets, liabilities, and the ownerships on a specific point of time (usually end of year). Assets and liabilities are the two-main section of a balance sheet.

Assets refer to all the monetary items that the entities possess. There are three different types of assets: current assets, and fixed assets, and other assets. The current (or floating) assets consist of the items producing liquidity in the business. On the other words, those items can be traded for money, or paid as the loan installment. For example, cash, stock inventory, accounts receivable, and short term investments are the typical current assets. However, if the receivables are not able to use within a year, they will be transferred to the fixed assets.

Unlike the current assets, the fixed assets are more liquid, and are utilized for the long-term purposes in the business. Land, building, equipment, and furniture are normally recorded as the fixed assets. Other assets include trade investments, patents, and goodwill.

(Spurga, 2004)

Regarding the liabilities, the second component of a balance sheet, the non-current liabilities and current liabilities should be specified in this section. The current liabilities are attached with the operating cycle. Normally, the current liabilities are the payable obligations within one year. The liquidity of the entity is evaluated on the ability to pay off the current liabilities sufficiently. Because the payment for the current liabilities are mostly based on the current assets, the existence of abundant current liabilities will require the concern of the available floating assets presented in the balance sheet. Some examples of current-liabilities are account payable, account receivable, short-term loan, current maturities of long term debts, or dividend declared.

(PwC, 2015)

On the contrary, the non-current liabilities refer to the long-term debts listed in the balance sheet. Those financial obligations have the due date over one accounting year. In other words, company does not need to liquidate them within 12 months of the balance sheet date. The creditors seem to concern with the current liabilities and the entity's affordability to dissolve the short-term debts. However, investors are more interested on the long-term liabilities because those debts are usually bound with the infrastructure and operation of the company. Also, the maturities and interests of the non-current liabilities are quite stable over time (Kokemuller).

The important parties in the International Accounting System

In 1973, the accountancy associations from Australia, Canada, France, Germany, Japan, Mexico, United Kingdom, Ireland, America, and Netherlands agreed on the foundation of International Accounting Standards Committee (IASC). After the re-structure in 2000, the organization has worked as the official regulation for the International Accounting Standards (IAS).

Originally, the IASC comprised of five main parties, those were

IASC Board – the IASC Board was responsible for carrying out the general accounting standards and had the 13 multi-background country members and three volunteer organizations. Each member was a group of three people, including two national representatives and one technical advisers. The Board published a significant part of Standards, Interpretations, a Conceptual Framework. Also, the guidelines for the accounting standards from IASC were employed to improve the domestic accounting standards.

Consultative Group – established from many international accounting organizations for the main projects of the Board.

Standing Interpretations Committee (SIC) – responsible for the interpretations of IASC Standards from the private and public. Based on the collected comments from other parties, the organization would release the official clarification of the IASC Standards.

Advisory Council – in charge of the supervision for the whole organization.

Steering Committees – provide the supports, recommendations, and the enforcements for the projects inside the agency.

With the purpose of reorganizing the IASC for more efficient operation, the new International Accounting Standard Board (IASB) Constitution was formed in July 2000 to replace to IASC Board. Also, the name IASC was changed to IASCF, standing for International Accounting Standards Committee Foundation (known as IFRS Foundation nowadays). Consequently, from 2001, under IFRS Foundation, the IASB has worked as the standard setting body.

(www.iasplus.com)

Monitoring Board:

The Monitoring Board was founded in 2009, with the mission of encouraging the public accountability of the IFRS Foundation. The Board works as a connection between the Trustees and the government while assuring the appropriate operation of the Trustees. The members of the Monitoring Board are the capital market authorities, who regulate the content and structure of financial reporting system.

The governance review of the Monitoring Board and IFRS Foundation was introduced in 2010-2011, providing a general picture of the Foundation's operation to the authorities.

IASB:

The International accounting standards (IASB) was founded in 2001 and works as a separate operation, which execute and improve IFRS. Under the consultancy of IFRS Foundation, IASB formulates the standards of accounting internationally. With 14 members now, the IASB is in charge of all the technical issues in IFRS foundation. The main responsibilities are:

The total right and judgment of enhancing and managing its specialized projects, depending on the oversight and requirements of the authorities and public.

The arranging and releasing the standards for accounting procedures (except the interpretations of IFRS)

Acceptance and presenting the explanation of International Financial Reporting Standards interpreted by the Committee.

(IAS plus)

Under the instruction of IFRS Foundation, the IASB has achieved the convergence in the accounting standard in global. Because of the need for internationalization, the number of countries accepting IASB in their accounting systems are increasing. The foreign investments are also the encouragement for the adoption of the common accounting merits in both private and public businesses. The remarkable advantages of the financial framework introduced by IFRS Foundation can be seen through the improvement in the accounting systems of the participants (proved in the following chapter). Also, the investors can be benefited from the global reporting framework due to the better comparability.

(Wong, 2004)

Accounting Standard Advisory Forum:

The Accounting Standards Advisory Forum (ASAF) is established from the national standard setters and the regional organizations having influences on the financial reporting framework. The members of ASAF are supposed to work as the advisors for the accounting standards. The forum has the necessary components and balance to support the constructive discussion of all the members. To be clear, the ASAF will contribute to the global development of IFRS by performing three main activities, including:

Reinforcing the objectives of IFRS Foundation. The ASAF raises the public concern of the IFRS, ensuring the understandability among the investors and other market involved parties.

Providing and promising the efficient working methods for the members in the forum to create the effective technical discussions. The strategy is to evaluate all the proposals from national and regional contributors.

Facilitating the working process of ASAF members, directing the topics of the discussions with the priority for IASB's work plan. The meetings of the ASAF are held four times every year, usually in London.

IFRS Interpretation Committee (IFRSIC):

The IFRS Interpretation Committee members are designed by the Monitoring Board, with the mission of elucidating the technical issues in the International Financial Reporting Standards. Consisting of voting 14 members from diverse backgrounds, the Committee operates closely with the national standards.

The IFRSIC is the systematic and interpretative sector of the IASB. All the instructions related to the IFRSs are issued by the Committee. Although the Interpretation Committee does not form the financial standards, they provide the authentic stipulation of the existing and upcoming complications in applying IFRSs.

The IFRS Interpretation Committee is responsible for all the issues related to financial reports which are not in the concern area of IFRS. Besides, the Committee also solve the differences and conflicts among the versions of interpretations. The Interpretation Committee organizes the meetings publicly.

In conclusion, the main activities of IFRSIC is divided into four sections:

The interpretation and the compliance with IFRSs of the member countries. Based on the IASB's framework, the Committee carries out the periodic review of the financial reporting problems and suggests the expedient solutions for the participants. Apart from performing the requested assigned tasks from the IASB, the Committee also take charge of the arising matters which are not mentioned in the IFRSs.

The important mission of the Interpretation Committee is to connect the domestic financial frameworks with the guidance of IFRSs. By working with the national standard-setters, Interpretation Committee expect to create the convergence between the general standards and the specific accounting environment of the countries.

The public issuing interpretation of the IFRSs. Before the final version of the interpretation, the draft interpretation is released by IASB to collect and consider the suggestions from public and private parties.

The Interpretation is submitted to the IASB for acceptance before publishing. The report would be adopted if the certain approval votes are achieved.

(IAS Plus)

The Working Groups of ISAB is mainly responsible for the projects of the Board, executing the plans, identifying and solving the coming up problems. The Trustees reviews and appoints each working group for the specific task and area.

THE MANDATORY ADOPTION OF IFRS INTERNATIONALLY:

Impact of IFRS adoption in several countries in Europe:

The effects of IFRS on the domestic financial framework has researched in many different countries and areas. The table below will show the results collected from the studies of individuals and institutions about this topic

Author	Researched period	Topic	Samples	Findings
Aharony et al. (2010)	2004–2006	The impact of mandatory IFRS adoption on equity valuation of accounting numbers for security investors in the EU	14 EU members	Positive
Agostino et al. (2011)	2000–2006	The value relevance of IFRS in the European banking industry	15 EU members	Mostly positive
Barth et al. (2008)	1994–2003	International accounting standards and accounting quality	13 EU members	Positive
Morais and Curto (2009)	2000–2005	Mandatory adoption of IASB standards: value relevance and country-specific factors	14 EU members	Positive
Jarva and Lantto (2012)	2005		Finland	None
Hung and Subramanyam (2007)	1998–2002	Financial statement effects of adopting International Accounting	Germany	None

		Standards: the case of Germany		
Callao et al. (2007)	2004	Adoption of IFRS in Spain: effect on the comparability and relevance of financial reporting	Spain	None
Clarkson et al. (2011)	2005	The impact of IFRS adoption on the value relevance of book value and earnings	13 EU members and Australia	None
Paananen and Lin (2009)	2000–2006	The development of accounting quality of IAS and IFRS over time: the case of Germany	German	Negative
Morais and Curto (2008)	1995–2005	Accounting quality and the adoption of IASB standards - Portuguese evidence	Portugal	Negative
Paananen (2008)	2005	The IFRS Adoption's Effect on Accounting Quality in Sweden	Sweden	Negative

Table 6. Impact of IFRS adoption in Europe

Source: Palea (2013)

All of the aforementioned surveys focuses on the book values of equity and earning although some surveys also uses extra figures. Based on the variations in their findings, we can see the studies of IFRS's impacts on the EU countries are still immature. Consequently, to understand the roles and effects of mandatory IAS/IFRS adoption in Europe, further researches need to be carried out on timely basis.

The differences between traditional Finnish accounting system (FAS) and IFRS:

The Original Finnish Accounting System (FAS):

In Finland, from 1980, the commercial banks were authorized to participate in the foreign exchange market, leading to the deregulation of the domestic capital market in 1983 (Prime Minister's Office Reports, 2014). As the result, the interest for loan was remarkably reduced. Because of the more flexible regulation on lending (Vaihekoski, 1997) the borrowing from the individuals for households and from the companies for capitals were encouraged. According with the derestriction in laws, many loan service packages were first introduced to the capital market, such as the mutual fund (introduced in 1989). Due to the supports from the financial lendings, the capital market in Finland experienced the robust growth from 1970 to 1995 with annual growth rate of 24% approximately (Prime Minister's Office Reports, 2014). Therefore, one characteristic of Finnish capital market has been defined as debt-dominated by Kasanen, Kinnunen, and Niskanen in 1994.

Finland followed Saario's theory of book keeping, called expenditure-revenue theory. (Morik and Walton, 2014, 87-90). The theory focused on the recordings of three basic elements of the business transactions: expenditure, revenue, and finance transaction. The accounting period is in the end of the year, with the focus was divided into two matters:

Allocation of revenue to recompensing the expenses and generating profits. The reason for this allocation is that part of the revenue would be used to pay back the costs to generate that revenue. The rest of revenue is considered as the profit for the owners.

Allocation of expenditures to the current expenses and the debit side of the balance sheet. The debit side can be described as the unexpired cost. The purpose of this report is to follow the matching principle of the accounting period.

The **matching principle** is the key for calculating profit and is one of the important guidelines in bookkeeping. Per the principal, the expenses and their corresponding revenue must be recorded under the same period, disregarding the actual payment time of those transactions. For example, a company invest 100000€ on the inventory, and the purchase from the manufacturer happens in January while the actual payment for the inventory is accomplished on February. The matching principle requires the company to write down this expense under the income statement of January with the revenue of January rather than shifting this cost to the income report of February.

Saario's theory focuses on calculating the available money of the business at a specific time. This calculation method is based on the historical costs, money obtained and consumed through the transactions.

According to Edwards (1994), since Saario's theory only accquires the unconsumed items in the balance sheet, the statement of financial position under expenditure-revenue theory has no effect in the measurement of income.

Basic differences between FAS and IFRS:

In Finland, the accounting period is recorded from January 1st to December 31st. The Finnish Generally Accepted Accounting Principles (GAAP) is the general standard for the financial report in Finland. According to the European obligation in 2005, all the listed companies in the stock-exchange market are required to build the financial reports in International Financial Reporting Standards (IFRSs). The annual reports of all the listed company must be submitted to the Finnish authorities and published for the transparence. In the annual reports, the income statement (profit and loss account) , and the statement of financial position (balance sheet) must be included with a final annual report. (NordeaTrade, 2017).

Finland, as other countries in the European Union, has followed the regulations from European Union Directives (EU Directives) since 1990. The influences of EU Directives on the FAS is stronger than the impacts of IFRS on the Finnish domestic accounting standards. (Pirinen, 2005). The former regulations provided by EU Directives intended to systematize the financial announcements, aiming at minimizing the differences in the accounting standards among the member countries. However, the Directives did not command the common financial regulatory system in all the European countries, but the compatibility of the rules among the countries. Therefore, each country in the European Union still followed their own GAAP the regulation 1606/2002 was in force. This regulation commands the application of International Accounting Standards and International Financial Reporting Standards from January 2005.

Finland has adopted IFRS in its accounting system since 2004, which has had a great reformed in the Finnish accounting system. The main differences between FAS and IFRS can be divided into two categories: the new principals mentioned by IFRS but not existed in the own Finnish old accounting system, and the differences in the same principles offered by both FAS and IFRS.

Regarding the discrepancy between the FAS and IFRS, Ding (2007) has listed that there were 22 new rules proposed by IFRS but never mentioned in FAS before. Also, between FAS and IFRS, there were 31 differences in the similar regulated areas.

Nobe (2006) has explained the reasons for the survival of international differences in the accounting systems of the European countries. There are differences in three categories: financing system, legal system, and tax system, which contribute to the incompatibility among the domestic accounting systems.

Regarding the differences in the financing system, Nobes proposes two types: shareholder funding as the 'outsiders' and bank/state/family funding as the ’insiders’. Outsiders are the parties which have investments in the companies' business but do not entitle to the companies' activities. In contrast, the insiders have the strong and long-term relationship with the entities, therefore, they will require the provision of financial situation of the companies. IFRS aims at providing the sufficient and relevant financial information for the investors in the capital markets by harmonizing the financial reporting system. Therefore, IFRS can be viewed as an outsider-oriented system. On the other hand, in Finland, Finnish family firms contribute a significant percentage in the economy. 70% of the Finnish non-financial companies are defined as the family businesses and 30% of the business sector value added in Finland also attributes to the family businesses (The Finnish Family Firms Association, 2017). Therefore, Finnish financing system can be defined as insider-oriented system.

The second cause is the legal system, which is divided into two main types: Roman (code) law and common law. The legal system has strong impact in the accounting quality and patterns of the countries. For example, Jaggi and Low (2000) has proved that under the Roman law, the companies prepare fewer financial documents compared to the companies under the common law. Ball et al. (2000) also proposed that the income in Roman law countries is less opportune, especially in absorbing the economic losses. The third incentive of the conflict between FAS and IFRS is the tax system. The interrelationship between the accounting income and taxable income can strongly affect the accounting quality since they are collected for different purposes (Soderstrom and Sun, 2007). For example, in many Roman law countries like Finland, also under the effect of Saario's theory, the financial reports are collected for tax collection purpose, hence, the dominance of tax was over financial reporting.

Under the EU Directives, the accounting method in Finland was more focused on protecting the debtors. The accounting system used to be more conservative with the prudence over accrual. As mentioned before, the FAS used the historical expenditure for the financial reports, while the accounting under IFRS are more dynamic and concentrates on the creditors and investors. The fair value accounting is the key component in the financial reporting under IFRS and the IASB also requires more financial documents than the EU Directives. Unlike the Finnish Accounting System, IFRS usually asks for the current market value of the transactions and events (Pirinen, 2005). However, under IFRS, which focuses on the benefits of outsiders, the financial reporting system calls for the strong accounting purpose rather than tax collection.

Fair value accounting in IFRS

There are three basic methods to accumulate the fair value of the assets, including: through profit or loss (POL), through other comprehensive income (OCI), or one-time fair value

Fair value requirements		Method
Manda-tory	Impaired assets (IAS 36)	POL
	Financial instruments held-for-trading (IAS 39)	POL
	Financial instruments available-for-sale (IAS 39)	OCI
	Derivatives other than used in designated cash flow hedges (IAS 39)	POL
	Derivatives used in designated cash flow hedges (IAS 39)	OCI
	Biological assets (IAS 41)	POL
	Agricultural produce at the point of harvest (IAS 41)	POL
	Minority interest at initial recognition (IFRS 3)	One-time fair value
Optional	Property, plant and equipment (IAS 16)	OCI
	Intangible assets (IAS 38)	OCI
	Investment property (IAS 40)	POL
	Selected items on IFRS transition (IFRS 1)	One-time fair value

Table 7. Fair value accounting in IFRS

Source: Blanchette, Racicot, and Girard, 2011.

Under old Finnish Accounting System, all the financial instruments, Agriculture, and Investment property were measured at historical costs. Also, Property, Plant, and Equipment could be calculated at the market value when the fair values of a land or water area are constantly and noticeably greater than their historical costs.

The concept of fair value is expected to give the investors the better pictures of the current economic situation of the companies, increase the symmetry in the value of assets that the entities own. The implementation of fair value calculation in the financial report has changed the income generated from the business activities to the assorted income including generated revenues and potential revenues (Jarva and Lantto, 2012).

Apart from the differences in the fair values calculation, Jarva and Lantto (2012) also mentioned the major changes in IFRS compared to FAS in:

- Employee benefits
- Income taxes
- Intangible assets
- Construction contracts
- Inventories
- Leases
- Share-based payment
- Impairment of assets
- Business combinations
- IFRS implementation in Finland

From 1973 to 1992, the Finnish Accounting Act was changed due to the enforcement of 4th and 7th European Accounting Directives, aiming at harmonizing the correlation between FAS and the common European Accounting Standards. Per the revision, the listed companies in Finland was required to prepare one financial statement following Finnish reporting system and another following International Accounting Standard or US GAAP. Since the traditional Finnish accounting system was based on the Saario's theory, the new regulation made FAS closer to the global capital market. (Söderlund, 2010).

One of the important emendation made by Finnish Accounting Act in 2004 was the mandatory implementation of IFRS for all the listed companies in Finland. The motive for this revision was to enhance the correspondence between the European financial market and Finnish accounting environment. Due to the new regulation, Finnish listed companies will follow the common financial reporting system as other international companies. There were many researchers conducted to examine the effect of IFRS in Finland, based on either quantitative method or qualitative surveys.

Pajunen (2010) has studied the differences in origin of accounting concepts between the current Finnish accounting system and the IFRS. The survey was conducted from the accounting professionals in the teaching working fields. There were four questions focusing on the practicability of fair value in the financial reports. The result was positive when most of the respondents agreed that fair value was a better scale for evaluating assets and another financial instrument. However, other questions related to the financial reports' components, there was a large portion of reposes preferring the income statement over the balances sheet. The author explained this tendency as the result of Finnish traditional expenditure-revenue theory.

In 2005, the Finnish Financial Supervisory Authority carried out a survey examining the changes in the financial reports of the Finnish listed companies after the adoption of IFRS. According to the survey, the financial reports of the Finnish companies before the application of IFRS in Finland were not unified. There were five major problems found in the survey:

- The shortage of notes and explanation in the financial reports.
- Lack of information on goodwill
- A large portion of the researched companies prepared only one segment report
- Insufficient details about the share-based payment arrangements
- Lack of determinants for fair value

The implementation of IFRS in Finland has contributed to the improvement of the problems in the accounting system of the Finnish listed companies by requiring more details and relevant information in the financial reports.

The organization also reported the changes in the values of properties in the Finnish companies due to the regulation of IFRS. More than 30% of the listed companies experienced the changes in shareholder equity of about 4%. Remarkably, 60% of the companies increased in their profits.

METHODOLOGY AND DATA:

Methodology:

In this dissertation, two methods are employed: qualitative and quantitative research. While the quantitative research provides convincing information from the mathematical studies, qualitative research has advantages in exploring a concept in depth (Sukamolson, 2007).

According to Mason (2002), qualitative research should focus on providing the explanations or arguments of the matters, rather than purely defining the issues. The definition and interpretation of the issues also require the critical viewpoint, which cannot be neutral or objective. Mason (2002) also suggested that the researched problems could be achieved by applying multiple approaching strategies and data sources. There are three common notes when integrating different data sources in the research:

Technical integration: the data collected from the various sources should have the similarity or compatibility, so the researchers can prove the arguments based on those informations. For example, in this dissertation, we compare the impact of IFRS adoption to show the differences in the accounting quality after the implementation of IFRS. To assure the comparability of the information, the data is aggregated from the surveys conducted in a specific area (among the European countries). Consequently, we can notice the variety of the IFRS's effects in a certain region, and, this region includes our chosen targeted country (Finland). We refuse to compare the influences of IFRS among other countries and continents around the world because of the significant dissimilarities in the economic, legal, and political environment.

Knowledge and evidence- based approach: the knowledge or theories used in the research should be applicable for all the forms of data collected. In the other words, the different approaches used in the research should contribute to form the evidences proposed. For example, in this dissertation, we concentrate on the effect of IFRS, so the information accumulated from various sources should either prove or explain that effect.

Explainable level of the integration: the integrated methods should be consistent and complementary with the researched problem. That means, the data or theories proposed in the thesis should have the validity and reliability. Also, the methodology used in the research also must be related and suitable with the researched problem.

In this dissertation, when using qualitative research, grounded theory methodology is applied to clarify the concepts used in the research. The grounded theory methodology requires the collection and analysis of data. Strauss and Corbin (1990) stated that the data analysis was parallel with the accumulation of data. Another feature of this research strategy is the diversity in the proposed samples to enhance the similarities and the differences of the information. As an illustration in this essay, when defining the financial statements, apart from the definition, the essay also analyzes the purposes of financial statements; then supports the importance of the financial statements by sampling the components of a financial statement: income statement, balance sheet, and cash flow statement.

Regarding the quantitative method, it is defined as the numerical description and explanation of the statements. According to Cohen and Manion (1980), empirical studies and empirical statements are required in the quantitative research. The empirical studies refer to the numerical calculation, which should return the results supporting the opinions in the empirical statements. Empirical statement is explained as the illustrative declaration of the real case. After the empirical studies are carried out, the empirical evaluation is required to measure the quality of the studies.

Case studies is one of the typical methodology of the quantitative research, in which the researcher studies a specific event in depth. The event can contain an individual or multiple targets in the time-limited period. (Stake, 1995). Data can either be collected from the interview or document review. In this study, the main data for the quantitative calculation is from the documents and annual reports released by the chosen companies.

Empirical study:

The quantitative research of this essay aims at exploring the effect of IFRS on the relation between the operating cash flow and net income of the chosen companies in Finland. Because of the time gap between the recorded sales and the actual payments, the value of the net profit and cash flow are not similar. For example, when the payment is made in invoice, that transaction is recorded as revenue or expense in the income statement, rather than the cash inflow or outflow in the cash flow statement.

According to Christy (2009), operating cash flow present the critical prospect of the long-term expenses of the company. Operating cash flow is also a measure of the firm's ability to deal with its current debt from the cash obtained from the operating activities. Since the operating cash flow only records the actual money transaction instead of the accruals, the effect of accounting prediction is negligible. Therefore, the operating cash flow is sufficient to show the management quality of the company's operation. Palepu et al (2007) stated that one of the signal for "red flag" in accounting quality is the increasing gap between the sustained net profit and the cash flow from operation. Also, Robinson et al (2015) argued that the historical information of operating cash flow had important influence on predicting the future operating profit, which also affects the net profit. This dissertation will examine the relation between net income and operating cash flow of the chosen Finnish companies before and after the application of IFRS in FAS.

Jarva and Lantto (2012) supported the idea of using the relation between OCF and IT to predict the future firm’s performance. Mulford and Comiskey (2005) also suggested the advantages of using OPC to detect the problems in earnings of the companies. From the reconciliation of operating cash flow from the net income in the indirect-cash flow-statement, we can understand more clearly the relationship between those two factors. For example, the reported depreciation in the company may decrease the net income, but does not affect the operating cash flow. Apart from the receivables and payables, some common issues that Mulford and Comiskey stated were the overestimation of assets, under evaluation of liabilities, or over conservative accounting practices. Those underlying problems not only upset the relationship between net income and operating cash flow, but also affect the liquidity and solidity of the company in the long run.

In this essay, the linear regression model is used to examine the relationship between OCF and NI. The linear regression test is an approach. There are two main components of the model: scalar dependent variable "y" and explanatory (or independent) variable "x". The simplest linear model is written as:

$y = \beta_0 + \beta_1 x + \varepsilon$

Where: y is the response or dependent variable of the independent variable x. Intercept β_0 is the parameter, showing the value of y when x is zero. Slope β_1 presents the change in the mean of y when the mean of x changes. Parameters β_0 and β_1 is also called the regression coefficients. Ɛ explains the lack of consistency in the mean, also called error term.

Null hypothesis is the default position of the dependent and dependent variables, where there is no significant relationship between those two statistics. There are three determinants of the correlation in the linear test we should pay attention, including p-value, F-value, and R-square. P-value is referred to the possibility of the null hypothesis. Along with p-value, significance F shows the reliability of the whole regression test. It indicates the probability that the results can be obtained by chance. A small value of significance F confirm the validity of the test. The value of F ranges from 0% to 100% (from 0 to 1). The preferable p-value is less than 5% (0.05), when the null hypothesis is likely to be rejected. Finally, R-square is the numerical evaluation of the distance between the fitted line and the data point. In the other words, it shows the level of prediction of the independent variable to the dependent variable. In general, the higher R-square means the model well fits the data.

(Freund et al, 2006)

To explore the changes in the accounting quality, we apply the linear regression analysis in the following model:

$OCF_{i,t} = \beta_0 + \beta_1 NI_{i,t} + \varepsilon$

Where: $OCF_{i,t}$ = Operating cash flow to equity from time i to time t

$NI_{i,t}$: net income from time I to time t

Null hypothesis Ho: there is no significant change in the correlation between Net Income and Operating Cash Flow after the mandatory adoption of IFRS in Finland

We expect the regression test can show the positive relationship between net income and operating cash flow. Also, our hypothesis H_1 is that the period after the force of IFRS, correlation between IT and OCF would be stronger.

Samples of the study:

To examine the effect of IFRS on the correlation between the correlation between net income and cash flow in Finland, the survey is conducted among eight big listed companies in Finland, including: Fiskars Group, Lassila & Tikanoja (L&T), Elisa Oyj, YIT Oyj, Kesko Group, Sampo Group, Amer Sports Oyj, and Citycon Oyj.

Fiskars Group

Fiskars Group is founded in 1649 as an ironworks. The company focuses on the consumer goods with many global well-known brands: Fiskars, Gerber, Iittala, Royal Copenhagen, Waterford, and Wedgwood. The company aims at the long-lasting product with high quality and timeless style. The largest markets of the Groups come from European countries, America, and Asia. At the moment, the products of Fiskars has presented in more than 100 countries, with the employees from over 30 countries.

(Fiskarsgroup)

Lassila & Tikanoja (L&T)

Lassila & Tikanoja has worked as a wholesale business since 1905. The corporation gets internationalized and specialized in the environmental management. The company also focuses on providing the assistance for plan and property. The core business markets of L&T are Finland, Sweden, and Russia. From the consumer market, L&T direct the business operation to serve the higher purpose: recycling society. (Lassila & Tikanoja website)

Elisa Oyj

Elisa has been founded in the technology field. The company opens in telecommunication, ICT, and provides great services for both individual and corporate customers. In the corporation level, Elisa focuses on communication, entertainment, and digitalisation for their customers. The company is the biggest market share in technical field in Finland. (Elisa website)

YIT Oyj

YIT is one of the biggest company in the construction sector in Finland. They have business on building housing, business premises, and infrastructure. They are the largest construction entity working on residence area in Finland and Russia. The target markets of YIT are the Baltic countries and Central Eastern Europe. (YIT website)

Kesko Group

Kesko group is involved in the multiple trading businesses, including: grocery, building, technology, and car. The famous brand of Kesko is K Group, which owns over 2000 chain stores in the Nordic region, Latvia, Lithuania, Russia, Belarus and Poland. K Group is considered as the third biggest retailer in the Northern Europe.

Sampo Group

Sampo group comprises of three components: Insurance Company P&C, financial institution Mandatum Life, the parent company Sampo plc. While P&C is the largest insurance provider for property and casualty in the Nordic countries, Mandatum Life is famous in Finland for the efficient risk management services. The financial institution also extends its business to Sweden, Norway, Denmark and the Baltic countries. Sampo group associates with other companies, such as Nordea and Topdanmark, where its parent company Sampo plc works as a main shareholder. (Sampo Group website).

Amer Sports Oyj

Amer Sports is an international company in the sporting products, presenting in over 34 countries. The famous brand names of the company includes Salomon, Wilson, Atomic, Arc’teryx, Mavic, Suunto and Precor.

Apart from sport accessories, Amer Sports produces the advanced equipment with the high technique to improve the performance of sports and encourage the sporting spirit through the appeal and comfortable sport-wear. The company offers a wide range of products for almost all types of sport, including tennis, badminton, golf, American football, soccer, baseball, basketball, alpine skiing, snowboarding, cross-country skiing, fitness training, cycling, running, hiking, and diving.

Amer Sports works in both wholesaling and retailing sectors. Their wholesale channels are the sporting goods chains, specialty retailers, mass merchants, fitness clubs and distributors while the company take advantages of factory outlet and e-commerce for the retailers.

(Amer Sports website)

Citycon Oyj

Citycon is the leading company in attributing the department stores in the Nordic and Baltic areas. In Finland, Citycon is the biggest owner of the shopping centers with 20 places. The company focuses on running and managing the urban shopping malls near the residential areas with the convenient transportation. (Citycon website)

Collected data:

The table below presents the transition figures of net income and cash flow of the chosen companies in the first year adoption of IFRS. Most of the transitions happened in 2004, except for Amer Sports Oyj which followed IASB framework one year earlier, in 2003. All the figures are calculated in million euro- scale.

Group	Net Income in FAS (M€)	Net Income in IFRS (M€)	Cash flow in FAS(M€)	Cash flow in IFRS (M€)
Fiskars	44.9	54.6	15.6	15.6
L&T	21.8	27.7	19.8	19.7
Elisa	106.5	152	162.9	162.8
YIT	84.0	100.5	35.4	39.2

Kesko	124.7	184.9	143.5	148.4
Sampo	779	848	782	793
Amer Sports Oyj (2003)	64.7	78.1	-3.9	-4.2
Citycon Oyj	17.4	19.9	8.5	7.9

Table 8 Net Income and Cash Flow in transition year

Source: Extracted from the annual reports

From the table, we can notice the pattern for the changes of net income when all the observed companies experienced the increase after applying IFRS. While the cash flow of Fiskars remained the same, the cash flows of L&T, Elisa, Amer Sports, and Citycon slightly decreased. Only Kesko, and Sampo had the significant rise of cash flow, around four and five million euros, respectively.

To calculate the correlation between net income and operating cash flow of the observations, the two figures of each company are collected from 2000 to 2009.

Year	Fiskars	L&T	Elisa	YIT	Kesko	Sampo	Amer Sports Oyj	City-con Oyj
2000	25.7	9.9	22.3	54,703	90.5	923	65.8	11.3
2001	22.6	14.8	0.06	61,5	54.9	833	68.5	12.6
2002	49.6	15.9	-70.9	43.0	67.8	387	68.5	13.8
2003	-12.8	21.8	-16.5	48.4	96.1	354	***64.7***	14.3
2004	***44.9***	***21.8***	***106.5***	***84.0***	***124.7***	***779***	82.6	***19.9***
2005	62	27.2	177.8	156.9	189.2	963	62.4	59.8
2006	82.0	35.3	161.4	175.4	379.4	991	70.5	126.4
2007	110.4	32.2	220.3	228.0	307.4	3573	18.5	203.9
2008	29.9	39.7	177.0	134.3	241	675	31.7	-124.1

2009	96.3	33.1	177.0	66.2	134	3423	34.8	-34.3

Table 9. Net Income from 2000 to 2009

Source: Extracted from annual reports from 2000 to 2009

Year	**Fiskars**	**L&T**	**Elisa**	**YIT**	**Kesko**	**Sampo**	**Amer Sports Oyj**	**City-con Oyj**
2000	17.4	1.34	188.6	47,315	128.9	841	74.7	16.1
2001	99.9	2.57	301.8	40,302	209.0	1,383	93.2	18.1
2002	130.0	42.0	305.5	76.7	145.8	387	90.0	24.2
2003	83.6	48.2	304.8	97.6	164.5	354	***88.6***	22.4
2004	***88.1***	***48.4***	***355.3***	***59.2***	***213.2***	***73***	33.2	***26.1***
2005	62.7	48.9	309.5	167.9	297.7	–1,147	96.4	24.8
2006	99.0	69.9	334.6	-148.3	328	-1,417	45.5	32.0
2007	82.0	55.4	285.6	84.1	248	-222	58.1	39.3
2008	29.8	70.4	450.2	47.8	131	790	10.5	103.7
2009	95.7	66.2	431.0	242.5	379	1484	181.6	119.0

Table 10. Operating Cash Flow from 2000 to 2009

Source: Extracted from annual reports from 2000 to 2009

In the transition year (2003 for Amer Sports and 2004 for other companies), we use the data calculated according to FAS. To compare the differences of the correlation between two observed figures before and after the adoption of IFRS, we divided the 10 years into two periods for calculation: from 2000 to 2004 and from 2005 to 2009. Exceptionally, the calculation is from 2000 to 2003 and 2004 to 2009 for Amer Sports.

Results and Explanation:

The result of the linear model is accumulated by using Excel regression test, presented in the tables 11 and 12.

Summary of coefficients	Slope				Intercept			
	Coefficient		P value		Coefficient		P value	
	Before	After	Before	After	Before	After	Before	After
Fiskars	0.471	0.776	0.647	0.064	71.560	14.786	0.109	0.548
L&T	4.151	1.871	0.060	0.0415	-41.401	-0.529	0.191	0.979
Elisa	0.197	-1.496	0.738	0.450	289.570	635.590	0.003	0.139
YIT	-0.001	-1.282	0.384	0.376	77.933	273.813	0.010	0.263
Kesko	0.223	-0.184	0.797	0.762	152.933	322.665	0.122	0.115
Sampo	0.086	0.105	0.913	0.732	275.180	208.091	0.621	0.769
Amer Sports	2.211	-0.503	0.478	0.693	-61.243	96.085	0.755	0.216
Citycon	1.068	-0.272	0.073	0.106	6.017	76.342	0.375	0.014

Table11. Summary of Coefficients

From table 11, we can notice the significant change of the slope, which presents the interrelation between operating cash flow and net income. Apart from the increases in the value slope of YIT, Elisa, Fiskars and Sampo, other companies faced the drop in the value of slope after the adoption of IFRS. Remarkably, the value of the slope YIT escalated from 0.001 to 1.282. That means in four years after the application of IFRS, the correlation between net income and operating cash flow has become stronger in YIT, Elisa, Fiskars and Sampo. It seems like only four out of eight observations satisfy our Hypothesis H_1.

Regarding the effect of net income on operating cash flow, we expect the correlation between NI and OPC would be positive. However, the findings return five negative relations after the adoption of IFRS, including Elisa, YIT, Kesko, Amer Sports, and Citycon. The negative coefficients of slopes indicate that the increases in the earnings slow down the rises of operating cash flow. . Mulford and Comiskey (2005) identified some reasons for the negative relation between IT and OCF, attributing to the upsurge in the amount of account receivables or based-stock inventories.

In term of the probability of null hypothesis, P-value of slopes and intercepts are likely to exceed to preferable level (5%). Before the adoption of IFRS, Citycon had the P-value of slope lower than 5%, and Elisa and YIT had the P-values of intercepts lower than 5%. Interestingly, in the second period of the calculation (from 2005 to 2009 for most companies), P-values of slopes reduced in all the observations except Citycon. Even the p-values are not as low as expected, the improvement of P-value shows the positive signal for the improvement in the relationship between NI and OPC. The highest P-values of slopes attribute to Kesko and Sampo (both over 50%), implying that the null hypothesis is leading in these two cases. In other words, the relations between NI and OPC in Kesko and Sampo are trivial.

Summary of other statistics	R square		Significance F		ε	
	Before	After	Before	After	Before	After
Fiskars	0.079	0.734	0.647	0.064	45.762	16.9534
L&T	0.743	0.797	0.060	0.041	14.280	4.974
Elisa	0.043	0.200	0.738	0.450	69.495	76.382
YIT	0.257	0.264	0.384	0.376	26.884	146.364
Kesko	0.026	0.035	0.797	0.762	42.901	106.980
Sampo	0.005	0.045	0.913	0.732	381.625	805.032
Amer Sports	0.272	0.043	0.478	0.693	8.548	67.034
Citycon	0.710	0.635	0.073	0.106	2.601	30.739

Table12. Summary of other statistics

Regarding the quality of the test, table 12 shows the noticeable improvement of R square in Fiskars, while the moderate inflation is recorded in L&T, Elisa, YIT, Kesko, and Sampo. The highest values of R square are found in L&T and Fiskars, at 0.794 and 0.734, respectively. Cooperating with the relatively low P-value of slopes (table 11), we suggest that the employed linear test can well fit the data of Fiskars and L&T. Unlikely, the rest of the participants do not behave well in the test. However, while Fiskars shows the convincing improvement in accounting quality, L&T has significant decrease in the accounting quality after adopting IFRS.

Along with the increases in the values of R square, significance F increases in most cases (except Amer Sports and Citycon). The comparability in the pattern of R square and significance F (while R increases, F decreases and vice versa) propose the accuracy of the results. The values of significance F of Kesko and Sampo are considerably high (over 70%), complementing the previous opinion of trivial correlation between NI and OCF in these two companies. Meanwhile, Fiskars and L&T hold the smallest values of significance F, proving the validity of their results.

CONCLUSION AND DISCUSSION:

The International Financial Reporting Standards, as we have learned in this dissertation, is a prominent and remarkable revolution in the Finnish Accounting System. Since Finland owned the unique accounting method from the world (expenditure-revenue theory), the differences between IFRS and FAS can be easily recognized, especially in the frequency of financial reports, number of financial reports, and the changes in the calculation method for fair value of some elements. As stated in the earlier chapters, the distinction between these two accounting systems can be assigned to the differentiation in the financing system, legal system, and tax system.

The International Financial Reporting Standards (IFRS) for quoted companies has been enforced in Finland since 2005. The new regulations has had the significant impacts on the calculating methods of income statement and balance sheet in both layout and content. One of the major changes is the evaluation of the financial instruments, which has been required to follow the fair value. Accordingly, the values of the financial properties are changed relatively with the market value. The introduction of IFRS not only provides more realistic picture of the companies' assets, but also harmonizes the differences between accounting culture of Finland and the international financial framework. The changes are expected to attract more foreign investments to Finland and create a fair and transparent market for all the investors.

To clarify the changes when applying IFRS into FAS, the thesis conducts a statistical survey. The linear regression model in employed to test the correlation between net income and operating cash flow of eight Finnish listed companies in the periods before and after IFRS regulated. As explained in the previous chapters, the gap between net income and operating cash flow can strongly reflect the liquidity and solvency of the companies. Also, the relation between net income and operating cash flow is one of the key element to estimate the future cash flow and performance of the business (Robinson et al, 2015). The quantitative test is expected to show the improvement of accounting quality after IFRS implemented in the chosen companies. Before the test running, the correlation between net income and operating cash flow is estimated to be positive and greater after the implementation. Although in the qualitative discussion, IFRS has brought the positive changes to cover the lack of financial information in FAS, the quantitative findings are not convincing enough to indicate the improving in the accounting quality due to the advocacy of IFRS. Out of eight companies, only four companies with the indicative improvement in accounting quality, while the correlations found in others decrease. Interestingly, in contrast to our expectation, the correlations are not only positive, but also negative in many cases (Elisa, YIT, Kesko, Amer Sports, Citycon). Our findings are compatible to the previous research of Java and Lantto (2012), when there were no significant improvement was found. Based on the previous researches and the current results of the linear test, the implementation of IFRS in Finland is proved to change the accounting methods more strictly and realistically. However, the accounting quality remains stable even the unnoticeable improvement was found in certain companies.

To explain the findings, firstly, as Jarva and Lantto proved in their research, before the enforcement of IFRS, Finland already had the strong and stable accounting environment with the low inflation rate, high financing transparency, and firm economic base. The adoption of IFRS in Finland may have inevitable role in harmonizing the unique accounting system with the international framework, but does not improve the accounting quality.

Secondly, the small observation and time limitation can lead to the standard error in the findings. The linear test is carried out within eight listed companies out of almost 140 listed companies in Finland. Also, both the previous and current researches are bounded by the short period. Therefore, the findings may not able to represent for the whole accounting situation in Finland.

Thirdly, the negative relation happened in many companies after the enforcement of IFRS can be explained as the increases in the receivable accounts. When the companies own great amount of debts from their customers, the incomes of those companies will increase despite the stability in the cash inflow. This finding is also a signal of solvency in those companies, which show the negative relation between net income and operating cash flow.

For the further study, the same linear test taken with more companies in the longer time periods is suggested to explore more deeply in this correlation. Also, the different parameters for the accounting quality such as the fair values of financial instruments can be used instead of NI and OCF. Since the model used in the quantitative test does not fit all the companies' data, the new attempts with the different variables can be the prominent tests. Concerning the similar topic, the effects of IFRS on the small and medium sized enterprises (SME) in Finland can interest those who want to study further on this area.

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