

Legal Status of Accounting Standards – comparative studies (2)

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Chapter 2 Denmark

1 Corporations Act of 1917

In 1901, a committee in the Commerce Agency made a proposal for Corporations Act (*Udkast til Lov om Aktieselskaber m.m. med tilhørende motiver*)¹. This proposal was under the influence of the Swedish Corporations Act of 28 July 1885 and the Norwegian Corporations Bill of 1894 (*Rigsdagstidende* 1910–11 A, sp. 4113–4114) and took not only English and German companies legislation² but also established practices in Denmark (*cf.* Nilsen [1912]) into consideration but did not become a statute. Then, in the wake of the *Alberti* affair in 1908, commissions were set up, and several Corporations Bills were introduced to the National Assembly between 1910–1917 (Torp[1919] pp.182–183) only to fail to pass because of the objections raised by financial sector and lawyers.

While the Bookkeeping Act of 1912 (Lov nr. 98 af 10. maj 1912 om Bogføring m.v.) had imposed corporations an obligation to maintain their accounts, the Corporations Act of 1917 (Lov nr. 468 af 29. september 1917 om Aktieselskaber) had a provision to require corporations, according to the best estimates by the management, to prepare a balance sheet and an income statement showing the real status of the corporation (Article 26). The latter provision intended to embody the “orderly and prudent business practices” (Torp[1919] p.253) and was based on the policy to stipulate less concretely as in the United Kingdom (Christiansen [1993a] p.317; Elling [1994] p.38; Hansen and Sørensen [2001] p.172) while

1 Published by G.E.C. Gads Universitetsboghandel.

2 Elling noted that it was influenced by the German Commercial Code of 1897 above all (Elling [1994] p.38). See also Hansen and Sørensen [2001] p.172.

corporations were requested to provide concretely the policy on accounting and distribution of profits in the articles of association (Article 26, paragraph 3). According to *Torp*, there were established fundamental accounting principles that the ceiling of the value of listed securities was the market value while capitalization at historical cost and depreciation were usually "good accounting practices" with regard to tangible assets (Torp[1919]p.254).

The Corporations Act of 1930 (Lov nr.123 af 15. april 1930 om Aktieselskaber)³ required corporations to prepare audited annual accounts and extend the information to be included in annual accounts but it only stipulated that "annual accounts shall be prepared in accordance with orderly and prudent business practices, taking the existing debt and the value of the company into consideration and making sufficient reserves for depreciation" (Article 42) and did not have many provisions on detailed accounting principles and treatments⁴. "Orderly and prudent business practices" was the most important principle for valuation and meant that assets shall not be overvalued, liabilities shall not be underestimated, profits shall be taken into account only when it realizes and losses shall be reported as soon as it is expected (Elling [1994] p.39).

2 Corporations Act of 1973 and Limited Liability Company Act of 1973

Denmark, Finland, Norway and Sweden had agreed to carry out harmonization of company legislation and made proposals in 1942, including a proposal for group accounts⁵, but the proposals had not been implemented in these countries due to the World War II. In 1957, Denmark set up a new committee to study legislation for companies with limited liability, whose proposal (*Betænking om revision af aktieselskabs lovgivningen* (Betænking nr. 362)) was published in 1964. The proposal did not lead to a law because Nordic countries were working on harmonization of companies legislation then (Hansen[2000] p.70)⁶.

A proposal⁷ was made by the Nordic Council (Nordisk Råd) in 1969 and Denmark enacted the Corporations Act(Lov nr. 370 af 13. juni 1973 om Aktieselskaber) and the

3 For details, see e.g. Gomard [1987].

4 Provisions on revaluation, formation expenses and goodwill were introduced.

5 For details, see Kovvernagel [1942].

6 See also Betænking om revision af aktieselskabs lovgivningen (Betænking nr. 362), p.6.

7 Betænking om en fællesnordisk aktieselskabslovgivningen (Betænking nr. 540).

Limited Liability Company Act (Lov nr. 371 af 13. juni 1973 om Anpartsselskaber) in 1973, reflecting the accession to the European Economic Community. The Corporations Act and the Limited Liability Company Act had the provisions on accounting principles and treatments, which codified existing practices basically (Christiansen [1993b] p.606; Elling [1994] p.41).

Both the Corporations Act and the Limited Liability Company Act had adopted the expression, “good accounting practices (god regnskabskik)” instead of “orderly and prudent business practices”⁸ in accordance with⁹ the proposal on harmonization of company legislation in Nordic countries¹⁰. For the purpose of this provision, “good accounting practices” is understood as good practices among professionals competent and responsible, continuously taking into account development of practices and the nature and extent of the individual companies (Hasselager *et al.* [1998] p.1054).

3 Financial Statements Act of 1981

In order to transpose the EC Fourth Company Law Directive, the Financial Statements Act of 1981 (Lov nr. 284 af 10. juni 1981 om visse selskabers aflæggelse af årsregnskaber m.v.) was enacted and provides concrete accounting regulation in accordance with the EC Fourth Company Law Directive while the provisions relating accounting regulation in the Corporations Act and the Limited Liability Company Act were deleted. The Financial Statements Act of 1981 had a new provision (Article 4, paragraph 1)¹¹ to require the presentation of “a true and fair view (et retvisende billede)”¹². On this occasion, the

8 The 1964 proposal presupposed to maintain this expression that Article 42 of the Corporations Act of 1930 had adopted (Article 76, paragraph 1). Betænkning om revision af aktieselskabs lovgivningen (Betænkning nr. 362), p.40.

9 For the implementation in individual countries, *see e.g.* Aisbitt [2002] p.109, Table 3.

10 Betænkning om en fællesnordisk aktieselskabslovgivningen (Betænkning nr. 540), p. 284–285.

11 Financial Statements Act was amended in 1990 in order to implement the EC Seventh Company Law Directive and the Regulation of the Department of Industry on annual accounts and group accounts (Bekendtgørelse nr. 1053 af 17. december for færøerne om opstilling af årsregnskab og koncernregnskab og om udarbejdelse af koncernregnskab) governed group accounts then.

12 It is pointed out that the general clause, “a true and fair view”, has been utilized as justification for departure from statutory provisions with regard to the application of percentage-of-completion method or recognition of unrealized profits in income statement (Elling [1994] p.43).

provision to require to apply “good accounting practices” was removed. This is because to have two general clauses in the same Act might increase uncertainty and it entertains doubts about the scope of application of the two general clauses. In the law-making process of the Financial Statements Act of 1981, the Minister of Industry noted, however, that this amendment did not intend to eliminate “good accounting practices” in law and the concept will remain significant with regard to financial reporting in general and is important, among others, in judging when supplementary disclosure is necessary and departure from statutory provisions is required in order to present a true and fair view (industriministerens svar af 1. april 1981 til Folketingsudvalget, *cited in*: Hasselager og Johansen [1995] p.304).

In addition, according to the Explanation to Article 4 of the Financial Statements Bill of 1981 (Bemærkninger til lovforslaget, Forslag till lov om visse selskabers aflæggelse af årsregnskab m.v.)¹³, the Institute of State Authorized Public Accountants (Foreningen af Statsautoriserede Revisorer)¹⁴ and the Company Law Panel (Det Selskabsretlige Panel)¹⁵ were of the opinion that these two general clauses are the same in practice (*See also* Christiansen [1993b] p.616; Elling [1994] p.43).

On the other hand, some have noted that “good accounting practices” and “a true and fair view” are conceptually a little bit different (Regnskabsrådet [1991] p.39. *See* Christiansen [1993b] p.612; Elling [1994] p.43. *See also* Hansen [2001] p. 649–650). That is to say, “good accounting practices” is preparer-oriented and focuses on the process of preparation and accounting method while “a true and fair view” is user-oriented and a holistic concept and focuses on final work products.

4 Bookkeeping Act of 1998

After the Bookkeeping Act of 1959 and the Bookkeeping Act of 1998 (lov nr. 1006 af 23. december 1998 om bogføring), the Bookkeeping Act of 2006 (Bekendtgørelse af

13 *reproduced in: Tillæg a til Folketings Tidende, Folketingsåret 1980–81 (132. Årgang), III, J.H.Schultz, 1982, Sp. 2939–3072.*

14 Letter of 26 February 1981 from Institute of State Authorized Public Accountants to Industrial Committee of the Parliament (*reproduced in*: Hasselager og Johansen [1995] p.303).

15 The same idea was presented in the Letter of 1 April 1981 from Minister of Industry to Industrial Committee of the Parliament (*reproduced in*: Hasselager og Johansen [1995] p.304).

bogføringslov. lovbekendtgørelse nr. 648 af 15. juni 2006) provides that bookkeeping shall carry out in accordance with good bookkeeping practices (god bogføringsskik), taking the nature and the scope of the enterprise into consideration (Article 6, paragraph 1).

5. Financial Statements Act of 2001

Adhering to the Financial Statements Act of 1981, the Financial Statements Act of 2001 (Lov nr. 448 af 7. juni om erhvervsdrivende virksomheders aflæggelse af årsregnskab m.v.) has no explicit provision to require to observe good accounting practices. It is true that whether the requirement to observe “good accounting practices” should be introduced or not was discussed when the special accounting rules for state-owned enterprises were provided in 1995 and 1996. This discussion took place based on the idea to secure level playing field between listed companies and state-owned enterprises since Article 17, paragraph 1 of the Listing Regulation (Regler for udstedere af aktier) required listed companies to prepare annual accounts in accordance with good accounting practices. It noted, however, that the idea was not accepted because there was certain degree of uncertainty about the coverage of two general clauses (Regnskabsrådet [1991] p.39).

On the other hand, the Financial Statements Act of 2001 provides that the annual accounts shall give a true and fair view of the company’s assets, liabilities, equity and financial position as well as result, and in case of preparing group account, the group accounts shall give a true and fair view of the business group’s assets, liabilities, equity and financial position as well as result (Article 11, paragraph 1). Supplementary information shall be provided if this is necessary in order to give a true and fair view (Article 11, paragraph 2). In addition, a departure from provisions in the Financial Statements Act shall be made, in exceptional circumstances, if this is necessary in order to give a true and fair view (Article 11, paragraph 3).

6 The position of accounting standards

Since 1925, the Institute of State Authorized Public Accountants has published opinions (responsum) on what are the “good accounting practices” and the “good auditing practices”

as guidance for the member¹⁶, as well as the International Accounting Standards in Danish, which were not legally binding, with commentary since 1976.

In addition, at first, the Copenhagen Stock Exchange was, at least officially, reluctant to participate in the regulation and control of accounting (Christiansen [1993b] p.609; Hansen and Sørensen [2001] p.177).

In response to the pressure from the Government and the Parliament (Quinn and Sørensen [1997] p.99)¹⁷, the Institute of State Authorized Public Accountants decided in 1986 to publish Danish Accounting Standards (Regnskabsvejledning) to supplement the Financial Statements Act and started to publish in 1988. The Danish Accounting Standards were at first drafted by the Accounting Committee of the Institute of State Authorized Public Accountants, after giving preparers and users of financial statements opportunity to make comments to the exposure drafts, and adopted at the annual meeting of the Institute of State Authorized Public Accountants. The collapse of *Nordisk Fjer* in 1991 (See Enevoldsen [1991]; Hansen and Sørensen [2003] 4.05) lead, however, to the amendments to the Financial Statements Act (Lov nr. 345 af 6. juni 1991 om ændring af lov om visse selskabers aflæggelse af årsregnskab m.v. samt af lov om forskringsvirksomhed). In the course of the amendments, the need for broad participation of interested parties in accounting standards setting process (Artsberg and Schwencke [2003] p.314)¹⁸. Accordingly, the Accounting Panel (Regnskabspanelet), composed of various parties, including preparers, users¹⁹ and auditors²⁰ of financial statements, was set up and takes the final authority to adopt the Danish

16 As of 1 January 2013, more than 1350 opinions, including those on auditing issues, had been published.

17 According to Enevoldsen [1995], in October 1985, the Minister of Industry sent a letter to the Institute of State Authorized Public Accountants, stating that the Minister himself was going to propose more detailed legislation if the Institute of State Authorized Public Accountants would not develop Danish accounting standards. Addressing this warning, the Institute of State Authorized Public Accountants set up a working group to study and decided to develop Danish Accounting Standards.

18 See also Resume <http://www.folketinget.dk/doc.aspx?/Samling/19902/lovforslag_oversigtsformat/L150.htm>.

19 The Confederation of Danish Industry; the Danish Bankers' Association; the Danish Shipowners' Association; the Danish Securities Dealers' Association; the Danish Labour Market Supplementary Pension Fund; The Employees' Capital Pension Fund; the Danish Insurance Association; the Council for Labour Market Pension Schemes; the Association of Company Pension Funds. See Foreningen af Statsautoriserede Revisorer, *Forord til Regnskabsvejledninger*, November 1993, afsnit 8.

20 The Danish Association of Public Registered Accountants is a member.

Accounting Standards (*For details, see e.g. Hansen [2001] p.653–654*). And then, the organizations that are represented at the Accounting Panel are expected to make efforts to encourage their members to apply the Danish Accounting Standards. Meanwhile, the Copenhagen Stock Exchange and the Government were not represented at the Accounting Panel.

As the Copenhagen Stock Exchange was given an authority to regulate the disclosure by listed companies under the Regulation of 10 November 1983 on the conditions for listing securities on Copenhagen Stock Exchange (Bekendtgørelse nr. 526 af 10. november 1983 om betingelserne for optagelse til official notering af værdipapirer på Københavns Fondsbørs) and the Regulation of 13 November 1986 on the conditions for listing securities on Copenhagen Stock Exchange (Bekendtgørelse nr. 813 af 13. november 1986 om betingelserne for optagelse til official notering af værdipapirer på Københavns Fondsbørs), the Exchange released “The duty of the issuer of listed securities to provide information (Oplysningsforpligtelser for udstedere af børsnoterede værdipapirer)”²¹ in 1987 and required listed companies to prepare financial statements in accordance with the accounting standards of highest level among the industry to which the company belongs to. In 1991, the Exchange required further to apply generally accepted Danish accounting procedures (almindeligt anerkendte danske regnskabsvejledninger) (Article 15, paragraph 1) and to explain in cases of any departure (Article 15, paragraph 5)²². It has been understood that “generally accepted Danish accounting standards” for the purpose of this requirements include the Danish Accounting Standards (Werlauff [1997] p. 263; Hansen and Sørensen [2001] p.183)²³. And the Copenhagen Stock Exchange had stated in 1997 as the commentary on Article 17 of the Listing Rules that the Danish Accounting Standards issued by the Institute of State Authorized Public Accountants consisted of “generally accepted accounting standards” for

21 The Regulation for issuers of securities listed on Copenhagen Stock Exchange (Regler for udstedere af børsnoterede værdipapirer på Københavns Fondsbørs A/S)(hereinafter Listing Rules) was introduced in March 1996, and provided the same rules (Article 17).

22 The Listing Regulation had a similar provision as well in 2005 (del II, afsnit 3, § 27). The Copenhagen Stock Exchange was, however, taken over by the OMX AB (Aktiebolaget Optionsmäklarna) in 2005 and the OMX AB has been part of the NASDAQ OMX Group since January 2008.

23 For the details of the former disclosure requirements of the Copenhagen Stock Exchange, *see e.g. Schaumburg-Müller og Hansen [1996] pp.231–236*.

the time being (for tiden) (Hasselager *et al.* [1998] p. 212)²⁴ and interpreted in the same way in 2005 (Københavns Fondsbørs [2005] p.13; Finanstilsynet, *Behandlingen af medarbejderoptioner efter lov om værdipapirhandel m.v.* § 28 a-dagsordenens pkt. C.I.4, § 3.2 (19. September 2005). *See also* Hansen and Sørensen [2003] 4.05; Kassel and Krafth [2006] p.102).

Moreover, the Financial Statements Act of 2001 provides that the Government may delegate accounting standards setting to a private organization and establish the Accounting Council²⁵ (Articles 136 and 137). These provisions are based on the understanding that it is difficult to cope with fast-moving development of international accounting standards so long as laws and orders regulate accounting though the international trend is important for enterprises that operate and raise funds internationally²⁶. The legislature considered it appropriate to determine the framework by law, which is supplemented by standards developed by experts since standards might be more easy and quick to adapt to the needs than laws. It was of an opinion that the Commerce and Companies Agency (Erhvervs- og selskabsstyrelsen) is eligible to decide whether there is the need for standards (*See* Steffensen *et al.* [2011] pp.943–944).

Moreover, the Financial Statements Act was amended by the Law No. 99 of 18 February 2004 in response to the EU IAS Regulation and the new Article 137 provides the application of the IAS²⁷ while new Article 136 absorbs the substance of the former Article 137²⁸.

The new Article 136, paragraph 1 provides that the Commerce and Companies Agency is responsible for ensuring that standards are prepared where necessary to elaborate on and

24 The Copenhagen Stock Exchange had given a similar comment to Article 15 of “The duty of issuers of listed securities to providing information” in 1995 (Enevoldsen [1995] s.59).

25 After the amendments by the Law No.122 of 18 February 1994, Article 63c, paragraph 3 of the Financial Statements Act of 1981 had already had a provision on the establishment of the Accounting Council.

26 Forslag til Lov om erhvervsdrivende virksomheders aflæggelse af årsregnskab m.v. (årsregnskabsloven) <<https://www.retsinformation.dk/Forms/R0710.aspx?id=88502>>, Bemærkninger til lovforslagets enkelte bestemmelser, Til § 136 (10. januar 2001).

27 *See* Forslag til lov om ændring af lov om erhvervsdrivende virksomheders aflæggelse af årsregnskab m.v. (årsregnskabsloven) (12. november 2003) <<https://www.retsinformation.dk/Forms/R0710.aspx?id=91478>>, Bemærkninger til lovforslagets enkelte bestemmelser, Til § 1, Til nr. 45

28 Article 137 was amended further by the Law No. 516 of 17 June 2008.

supplement the Financial Statements Act. Within the framework of the EC Fourth Company Law Directive and the Seventh Company Law Directive as amended, the standards may specify the exceptions to the provisions which are covered by the derogation obligation under Article 11, paragraph 3, and where derogation is deemed to be necessary for the practical and expedient application of the provisions (*See Steffensen et al.* [2011] p.945)²⁹. The standards must specify the categories of enterprises which are entitled or required to follow the standards.

Sentence 1 of paragraph 2 of the same Article stipulates that the Agency may enter into an agreement with one or more independent organizations under which the said organizations are to handle all or any part of the tasks provided for under paragraph 1. The Agency may lay down specific provisions for the performance and organization of the work, including provisions for public authorities' rights to state their opinion on or approve the standards before they are implemented. This is because it is necessary to have the mechanism of monitoring in order to ensure that accounting standard setting body be consist of all interested parties without the control of a specific organization(s) or group(s) of interested parties, and the standard setting procedures be transparent and technically sound. Though the Commerce and Companies Agency is responsible for ensuring the process of developing accounting standards be democratic and trustworthy, and due respect be paid to any interested parties, it is well accepted that the Agency shall not take part in the decisions of developing standards (*Steffensen et al.* [2011] p.947).

Moreover, the Agency may set up an Accounting Council (*regnskabsrådet*)³⁰ with which

29 *See Forslag til Lov om erhvervsdrivende virksomheders aflæggelse af årsregnskab m.v. (årsregnskabsloven), Bemærkninger til lovforslagets enkelte bestemmelser, Til § 136 (10. januar 2001).*

30 The Accounting Council, which was set up under Article 63c of the Financial Statements Act of 1981, had made proposals on the amendments to the Financial Statements Act in 1996, the enactment of the Bookkeeping Act in 1998 and the enactment of the Financial Statements Act in 1999 (*Regnskabsrådet* [1999]). *See Forslag til Lov om erhvervsdrivende virksomheders aflæggelse af årsregnskab m.v. (årsregnskabsloven), Bemærkninger til lovforslagets enkelte bestemmelser, Til § 137, Stk. 2 (10. januar 2001).* Moreover, it had given advices to the Commerce and Companies Agency after 2001 on the amendments to the Financial Statements Act. The Accounting Council is consist of a university professor, the representatives of the Institute of State Authorized Public Accountants, the Association of Public Registered Accountants, the Confederation of Danish Industry, the Danish Employers 'Confederation, The Danish Construction Association, the Danish Shipowners' Association, the Danish Chamber of Commerce, the Economic Council of the Labour Movement, the Danish Confederation of Trade Unions, the Danish Society of Financial Analysts, the

the Agency may consult about general accounting issues. The secretarial function will be handled by the Agency (Article 136, paragraph 3).

Furthermore, sentence 3 of paragraph 2 of the same Article stipulates that the Agency may order an organization with which an agreement has been entered into to prepare special standards in areas in which a need for regulation is found to exist³¹. The purpose of this provision is to make it possible to “activate an emergency brake (trække i nødbremsen)” in cases where the Parliament deems it necessary (Steffensen *et al.* [2007] p.990). The explanation to Article 136 of the Bill noted that the Legislature may designate a specific area to be governed by accounting standards as the Legislature does not lose the authority by allowing an organization to issue standards but may decide to regulate all assumable areas of accounting at any time. It also pointed out that it is recognized that it is convenient to provide that the organization owes duty to prepare special standards where the Agency finds a need for regulation in the light of this presupposition³².

Though a contract has not been concluded with any organization³³ so far, *Steffensen*

Association of Danish Law Firms, the Danish Bankers' Association, the Association of Danish Mortgage Banks, Danish Securities Dealers' Association, the Danish Labour Market Supplementary Pension Fund, the Employees' Capital Pension Fund, the Danish Insurance Association, the Council for Labour Market Pension Schemes, the Association of Company Pension Funds and Danish Agriculture and Food Council as of 1 January 2013.

31 Meanwhile, before the 2004 amendments, Article 136, paragraph 2 provided that the Commerce and Companies Agency may lay down rules specifying that specific groups of enterprises are entitled or required to follow international accounting standards with a view to meeting the requirements of an international agreement, EEC legislation or EU legislation. In that case, the Agency will consult with the organization referred to in Article 137 (equivalent to the present Article 136, paragraph 2, sentence 1), paragraph 1, which is to submit an opinion on the appropriateness of an international accounting standard to Danish conditions, including any adjustments necessary in order to extend the application of the standard to enterprises not covered by reporting class D.

32 Forslag til Lov om erhvervsdrivende virksomheders aflæggelse af årsregnskab m.v. (årsregnskabsloven), Bemærkninger til lovforslagets enkelte bestemmelser, Til § 136 (10. januar 2001). Meanwhile, it was noted that it might be natural to request the State to contribute funds for the additional tasks in this case.

33 *Steffensen and others* point out that it is not probable that such an accounting standard setting body will be established in Denmark in foreseeable future (Steffensen *et al.* [2011] p.942). Meanwhile, in the process of enacting the Financial Statements Act of 2001, it was supposed that the operating funds of such an accounting standard setting body will be financed by the membership fees of organizations involved in accounting standard setting body and voluntary contributions from any accounting professional bodies and large companies (Forslag til Lov om erhvervsdrivende virksomheders aflæggelse af årsregnskab m.v. (årsregnskabsloven), Bemærkninger til lovforslaget, Almindelige bemærkninger, 6. Økonomiske og administrative konsekvenser for stat, kommuner og amtskommuner (10. januar 2001)).

and others note that in cases where an accounting standard setting body will be created and the accounting standards developed and promulgated by the body will not only interpret the Financial Statements Act but also have some direct legal effect, the body will be subject to public oversight to some extent and, if appropriate, the supervision of the Commerce and Companies Agency in order to ensure sound setting process (Steffensen *et al.* [2011] p.942).

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Chapter 3 Norway

1 Corporations Act of 1976

The Act of 1910 on Corporations and Limited Partnership by shares (lov 19. juli 1910 nr. 1 om aktieselskaper og kommanditaktieselskaper) provided that annual accounts should be prepared in accordance with fundamental principles for orderly and prudent management (grundsætninger, som gjælder for en ordentlig og forsiktig forretningsførsel)(Article 47)³⁴ while the Corporations Act of 1957 (lov 6. juli 1957 nr. 4 om aksjeselskaper) stipulated that annual accounts should be prepared in keeping with the provisions of Articles 78 and following and, in all respects, in conformity to orderly keeping accounts (ordentlig regnskapsførsel) and in accordance with prudent and good management practices (god forretningsskikk) (Article 77, paragraph 2).

On the other hand, the 1959 Accounting Law Committee submitted a report (*Innstilling om revisjons- og regnskapslovgivning*)³⁵ in 1962. The 1962 Report proposed to introduce a

34 Income Tax Act of 1911 (lov om skatt av formue og inntekt (skatteloven) av 18. august 1911) provided that taxable income should be calculated based on accounting profits (Article 50). The Tax Law Reform Committee (komité til revisjon av skattelovgivningen, 1899), which studied this amendment of tax legislation, prepared, at the same time, a draft of the Accounting Act (*Lov om regnskapshold*)(See *Indstilling til I. Almindelig skattelov for landet. II Almindelig skattelov for byerne. III Lov om adgang til kommunerne til at paalægge visse nærings- og bevillingsavgifter. IV. Lov om regnskapshold*, 1904), which did not evolve to legislation. On the other hand, the Act of 1935 on Commercial Transactions (Lov om handelsnæring av 8 mars 1935), for example, required to record assets at their real value (Article 35).

35 It is widely accepted in Norway that materials prepared in law-making process, e.g. the reports of the commissions appointed by the Parliament (Norges offentlige utredninger, NOU) and the Government's draft (proposisjoner), are one of the important source of law (See e.g. Eckhoff og Helgesen [2001] p.23). On the other hand, it is noted that judicial precedents are less important in regard with, at least, company accounting (Lundesgaard [2006] s.81). This is because there exists an obvious violation of law which is subject to criminal penalties, or the tax treatment is the issue –it

concept, “good accounting practices (god regnskapsskikk)”, in place of “orderly and prudent accounting principles” while it found that the main role of accounting is the measurement of profits and losses of an accounting period and emphasized the matching principle. This report took the position that good accounting practices may be the practices among a part of those who are subject to the duty to prepare accounting though “practices (skikk)” are those that have been applied steadily (fast) as popular practice (praksis)³⁶ to considerable extent. Thus, the requirement to comply with good accounting practices allows in fact broad accounting treatments and what are the good accounting practices depends on the actual situation in individual cases, *e.g.* the nature and scale of the person under the duty to keep and prepare accounts to a respectable degree. Moreover, the concept of good accounting practices might change in line with the development of economy and the new situation brought new problems, which will usually require a new and better practice. Then, it was noted that theoretical studies is also important in order to study what is good accounting practices (s.73).

In response to the proposals in the 1962 Report, the Companies Bill (Ot.prp. nr. 19 (1974-75) Om lov om aksjeselskaper, p.154) had chosen the expression, “good accounting practices” (*See e.g.* Vårdal og Johnsen [1989] s. 53-57) and, therefore, the Corporations Act of 1976 (lov 4. juni 1976 nr. 59 om aksjeselskaper) stipulated that annual accounts should be prepared in accordance with good accounting practices (§ 11-4, first sentence)³⁷.

The Accounting Act of 1977 (lov 13. mai 1977 nr. 35 om regnskapsplikt m.v.) provided, in the same manner, that those subject to the duty to prepare accounts should do the accounting and prepare annual accounts in accordance with the good accounting practices and the provisions in the Act and other statutes or provisions stipulated on the

should be noted that separation of accounting and tax is achieved in Norway- in most cases the decision of the court is given and it is very rare that the interpretation of “good accounting practices” is at issue (*See also* Ravnaas [1991] s.370).

36 For example, *Eckhoff/Helgesen* provide private practices (privates praksis) and considerations in real world (reelle hensyn) as examples of source of law (rettskilder) (Eckhoff og Helgesen [2001] s.23).

37 The Corporations Act of 1976 referred to “good accounting practices” nine times, *e.g.* in the first sentence of § 11-4, the sixth sentence of § 11-5, the fifth sentence of § 11-6, the second sentence of § 11-9, the third sentence of § 11-10 and the fourth sentence of § 11-11. “Good accounting practices” was one of the key concepts in the Corporations Act of 1976.

mandate of the statutes (Article 4, paragraph 1)³⁸.

2 Accounting standard setting body

The Norwegian Institute of State Authorized Public Accountants (Norges Statautoriserte Revisorers Forening) issued 18 recommendations from 1976 to 1988 in order to clarify “good accounting practices”. Moreover, the Agency of Commerce (Later, the Ministry of Finance [Finansdepartement]) became responsible for accounting issues) set up the Accounting Advisory Council (Regnskapsrådet) for developing statements of “good accounting practices” while the Norwegian Institute of Financial Analysts (Norske Finansanalytikerers Forening) published guidelines on preparation and analysis of financial statements. Furthermore, the Accounting Committee (Regnskapsutvalget) of the Oslo Stock Exchange had reviewed annual accounts of the listed companies and released accounting circulars (regnskapssirkulærer) on recommended accounting treatments since 1988 (*cf.* Ot.prp. nr. 89 (2003–2004) Om lov om endringer i lov 17. juli 1998 nr. 56 om årsregnskap m.v. (regnskapsloven) og enkelte andre lover (gjennomføring av EØS-regler om anvendelse av internasjonale regnskapsstandarder m.m.), p.29. *See also* Eilifsen [1996] s.842). Above all, it proposed in 1985 to amend the Accounting Act to allow the application of equity method and established a committee to develop recommendations on the application of equity method. In addition, it set up a committee to develop recommendations on accounting for business combination in 1987.

The recommendations issued by the Norwegian Institute of State Authorized Public Accountants had the strongest influence and had been widely accepted, which the Government did not consider appropriate at all (Kinserdal [1994] s.160). For example, the Government rejected in 1988 the Guideline on lease accounting issued by the Norwegian Institute of State Authorized Public Accountants. It has been suspected that there existed the objections by tax authorities and the pressure by leasing companies (Kinserdal [1994] s.160). Moreover, the Government had doubted that the Norwegian Institute of State

³⁸ As annual accounts should be prepared in accordance with statutory provisions under Norwegian law, it has been widely accepted that “good accounting practices” do not lead to any departure from statutory provisions (Ot. prp. nr. 42 (1997–98) Om lov om årsregnskap m.v. (regnskapsloven), s.106. *See also* Alexander and Schwencke [2003] s.553; Kristoffersen [2008] s.56).

Authorized Public Accountants could develop “good accounting practices” neutrally and considered it inappropriate for a professional body to work out guidelines (Kinserdal [1994] s.164; Kinserdal [1995] s.199).

Therefore, in order to ensure broad participation of interested parties, the Accounting Standards Board was created in 1989 by the Oslo Stock Exchange, the Norwegian Business School (Norges Handelshøyskole), the Norwegian Institute of State Authorized Public Accountants, the Norwegian Institute of Registered Public Accountants (Norges Registrerte Revisorerers Forening), the Norwegian Institute of Financial Analysts and the Norwegian Federation of Business Economists (Norske SivilØkonomers Forening).

The Practices Committee (Fagorganet) was to consist of one member representing each founding member and four members appointed on the basis of personal competence. Later in 1997, the Confederation of Norwegian Enterprise (Næringslivets Hovedorganisasjon) became an affiliated body of the Accounting Standards Board.

The Oslo Stock Exchange has encouraged the listed companies to apply the exposure drafts or the provisional standards issued by the Accounting Standards Board as well³⁹ and adopted the process that the accounting standards became final after the preparers and users of financial statements provisional standards had applied provisional standards and become accustomed to.

3 Accounting Act of 1998

The Accounting Act does not stipulate detailed rules on accounting issues but has been a framework law that serves as a basis for finding how to solve accounting issues based on basic accounting principles (Kristoffersen [2008] s.55), supplemented by legal standards (rettslige standarden) and “good accounting practices” (Huneide, Pedersen, Schwencke og Haugen [2008] s.35, Lundesgaard [2006] s.84). Moreover, the 1995 Report of Accounting Act Committee, *New Accounting Act* (NOU 1995:30 *Ny regnskapslov*) noted that “good accounting practices” are those consistent with the framework law and basic accounting

39 In 1992, Oslo Stock Exchange requested the listed companies, in an accounting circular, to apply the Norwegian Accounting Standards developed by the Accounting Standards Board (See Eilifsen [1996] p.836). See also Elling [1993] p.583.

principles and widely accepted in practice (allmennaksept i praksis) (s.31).

Furthermore, the doctrines have believed that the requirement to comply with “good accounting practices” implies the requirement to be normally in accordance with the Norwegian Accounting Standards⁴⁰ developed by the Accounting Standards Board (*See Handeland og Schwencke [1999] p.168*). The Accounting Bill of 1998 (Ot. prp. nr. 42 (1997–98) Om lov om årsregnskap m.v. (regnskapsloven), s.168 og 106) thought primarily of the Norwegian Accounting Standards when it referred to “good accounting practices” while a Report of Finance Committee of the Parliament (Innst. O. nr.61 (1997–98) *Innstilling fra finanskomiteen om lov om årsregnskap m.v. (regnskapsloven)*) noted that the Commission was of the opinion that “good accounting practices” should be built on accounting practices and accounting standards promulgated by a recognized standard setting body (anerkjente normstiftende institusjoner) (s.28).

The Ministry of Finance was of the opinion as follows in the Accounting Bill of 1998 (6.8.5): The requirement for good accounting practices plays supplementary role with regard to other fundamental accounting principles and statutory provisions. The requirement will be a legal standard (rettslig standard) in the same way as good auditing practices required in the Auditors’ Act and code of conduct for securities trading business⁴¹. Indeed, the standards of good accounting practices will not necessarily provide clear-cut guidelines to preparers of accounting information, governmental agencies or courts. It is obvious, however, that it is not feasible to lay down accounting law that governs all possible accounting problems comprehensively, which is especially the case since the business of those who are subject to the statutory obligation to prepare accounts vary. The standard of good accounting practices shall be what meets the development of accounting practice, observations about the society

40 It is pointed out that the Norwegian Accounting Standards focuses on measuring the performance in an accounting period correctly (*See e.g. Bernhoft [2008] s.2; Kristoffersen [2008] s.95*).

41 In fact, it is said that it is not necessarily rare in Norway that the practices (skikk og bruk) type norms have been referenced by the law (*See e.g. Eckhoff og Helgesen [2001] s.23*). *Nygaard* notes that “it is not rare that rules in a statute contain the expression, “good practice” ... Statutes look at ... the practices (skikk) in that field. The wording of the law ... functions as those that courts can formally (formell) be relied upon in order to determine what is the good practice in the industry or the field. Practices themselves or trade norms (handlenorm) that form practices themselves are non-statutory (ulovfest). Statutes that recognize good practices are, however, legally binding norms. In this way, good practice type rules are located in the boundary field between statutory law (lovfest rett) and non-statutory law (ulovfest rett)” (*Nygaard [1999] s.202*).

as a whole and the unique circumstances of the individual companies and organizations.

The Accounting Act of 1998 (lov 17. juli 1998 nr. 56 om årsregnskap m.v. (regnskapsloven)) § 4–6 stipulated as well that record of accounting information and preparation of annual accounts are to be done in accordance with good accounting practices.

Assuming the understanding of good accounting practices as above, it has been established in practices that the publication of the norms (normer) of good accounting practices have been published. In Norway, there have existed recommendations (anbefalinger) on accounting practices, issued at first by the Norwegian Institute of State Authorized Public Accountants (Norges Statautoriserte Revisorers Forening) and later issued by the Accounting Standards Board (Norske RegnskapsStiftelse) while the Norwegian Institute of Financial Analysts and the Oslo Stock Exchange had developed norms and rules to contribute to the development of the concept of good accounting practices. The Ministry of Finance pointed out the history and current situation and anticipated that the development of good accounting practices would be achieved in the form of recommendations and norms. Moreover, it noted that the requirement of stable practice which is popular to considerable extent (fast praksis med en viss utbredelse) would disappear once good accounting practices would be institutionalized in the form of recommendations and norms. Whether it is established practice and popular to a certain degree⁴² is often an issue in cases where there are no published recommendations or standards. Then, it is necessary for courts and agencies to evaluate based on the concrete language of the law as well as the present practices and norms in order to determine whether “good accounting practices” are observed.

4 Accounting Bill of 2004

(1) 2003 Report of Accounting Act Committee

The 2003 Report of the Accounting Act Committee, *Evaluation of Accounting Act* (NOU 2003: 23 *Evaluering av regnskapsloven*), endorsed the approach adopted in § 4–6 of the Act that provides that record of accounting information and preparation of annual accounts

⁴² However, it has been pointed out until today that “good accounting practices” will be influenced by accepted good accounting practices (anerkjent god regnskapspraksis) (e.g. Kristoffersen [2008] s.60).

should be done in accordance with good accounting practices since it is not feasible for the Legislature to cover all the possible accounting problems exhaustively in statutes. It was noted that “good accounting practices” is a legal standard (rettslig standard) prescribed in statutes, but individual assessment is required in order to determine what has been required in the application of the legal standard in practice. Financial statements prepared in accordance with “good accounting practices” should be those showing a true and fair view of the financial position and results of operations of a person with a duty to prepare financial statements. In the light of these criteria, it must be assessed individually whether financial statements satisfy the legal norms. Though it is a problem for users, agencies and others whether an accounting treatment gives a true and fair view of the financial position of the entity, it is pointed out that they can rely upon developed accounting standards in most cases, accounting standards are developed by a particular accounting standard setting body (særlig regnskapskyndige) in order to supplement the requirement of “good accounting practices”, and preparers should comply with the accounting standards in cases where users usually consider that a true and fair view of the financial position of the company is given. The Report presented the view that the issued accounting standards have an important significance as a benchmark for “good accounting practices” in practice and the final standard set by the body have a very high authority since the time the standard is promulgated even if the accounting standard setting body may not be able to force an accounting method through setting standards. Then, it noted that it is expected to be certain that the adopted accounting standards have great significance in practice if the accounting standard setting body⁴³ should have the involvement of the users, including the preparers and the government (Ministry of Finance) and the composition so as to ensure broad representation by accounting professionals (e.g. auditors, financial analysts and scholars) (s.52–53).

In addition, the Report has it that new accounting standards should be developed in cases where it deems as desirable to alter accounting practices but they should go through

43 The Committee noted that it is appropriate that the cost for setting accounting standards is shared among public organizations, the business community and non-profit organizations (stiftende organizations), the standard setting body should make an annual plan in order to receive public support, and the Ministry of Trade and Industry may provide the approval of the annual accounts of the body as a condition of funding.

due process in cases where they intend to change the accounting practices that were widely adopted in the past. It furthermore pointed out that going through due process will increase the possibility that an accounting standard affects the contents of the requirement of “good accounting practices”. In addition, it noted that it is natural that an accounting standard setting body finalizes a standard after issuing a preliminary standard and finding that the compliance to the preliminary standard in practice in cases where it intends to modify any established practices in response to new needs.

Given such a direction and a view, the Report found the trend that “good accounting practices” are deducted from the purpose of proper presentation of financial position of the company while they were rooted in the practices in the past. The Committee proposed that (1) while Norwegian standards should be based on the IAS/IFRS, information in Notes should be simplified and accounting guidance should be provided for the cases in which the IAS Regulation is not followed completely; (2) accounting standards should not be provided in the form of Regulation (forskrifter) unless the Ministry of Finance deems it as necessary in exceptional cases⁴⁴; (3) standards should not be finalized without the backing by the practices; and (4) superiority of practices is not, however, necessarily the case with regard to accounting standards based directly on the IAS/IFRS and applied to the listed companies (s.53).

(2) Response to the 2003 Report of Accounting Act Committee

While it was generally supported that a private body develops accounting standards, the Norwegian Financial Services Association (Finansnæringens Hovedorganisasjon, FNH)⁴⁵, Norwegian Confederation of Trade Unions (Landsorganisasjonen i Norge, LO), the Federation of Commercial and Service Enterprises (Handels- og Servicenæringens Hovedorganisasjon, HSH)⁴⁶ and the Norwegian Association of Authorized Accountants (Norges Autoriserte Regnskapsføreres Forening, NARF)⁴⁷ expressed an opinion that the

44 In addition, it was suggested that the accounting standard setting body would not be subject to administrative law (s.53).

45 At present, it has become the Finans Norge.

46 At present, it has become the Hovedorganisasjonen Virke.

47 This organization is a body of profession that offers accounting service for others, and is different from the Norwegian Institute of Public Accountants (Revisorforeningen) after the merger of the Norwegian Institute of State Authorized Public Accountants and Norwegian Institute of Registered

standard setting body should have an official anchoring (offentlig forankring), at least, participation from the Government. The FNH insisted that the Government should participate in the development of the standards as much as other groups that had played a central role in the financial reporting while it opposed to political control over accounting standards. It also argued that the standard setting body should be broader represented than then. That is, they were of the view that the capital market participants, creditors, preparers, accountants and scholars as well as the Government, etc. should participate in the work. The proposal on funding was also received broad support. The Norwegian Savings Banks Association expressed, however, the opinion that the accounting standard setting body should be under a competent public authority and the Government will bear the cost and appoint the committee member so as to ensure broad representation because it does define the accounting practices in relation to the courts, which are closely related to the law, and has considerable authority.

(3) Accounting Bill of 2004 and the 2005 amendments

The Accounting Bill of 2004 (Ot.prp. nr. 39(2004–2005) Om lov om endringer i lov 17. juli 1998 nr. 56 om årsregnskap m.v. (regnskapsloven) og enkelte andre lover (evaluerende av regnskapsloven)) noted as well that accounting standards have significant implication as a benchmark of “good accounting practices” in practice. The Bill affirmed the process that accounting standards are finalized after issuing as provisional standards and the experience of preparers and users of financial statements in applying the provisional standards (s.149). Moreover, the Ministry of Finance gave assent basically to the proposals in the 2003 Report of the Accounting Act Committee, noting that the IFRS would be applied to the listed companies, and placed a particular emphasis on the importance of an active and able accounting standard setting body in securing the framework of the good financial reporting (s.152).

The Bill presented a view that an accounting standard setting body should have a broad representation by major interested parties (preparers, users, auditors, financial professionals and SMEs) as well as accounting professionals (academics) while it is appropriate for the

Ministry of Finance to participate as an observer in the light of the change in the role of accounting standard setting body⁴⁸. Moreover, it noted that it would not wise to transfer the mission of setting accounting standards to an administrative authority (probably, to be established). Furthermore, it was of the view that it is reasonable for business community and financial industry to assume the responsibility of developing accounting standards, actively contributing funds to an accounting standard setting body while it expressed understanding to the governmental funding to some extent (s.153)⁴⁹.

In response to this, the 2004 Bill was discussed in the Parliament and became Law No. 46 of 10 June 2005 (Lov om 10. juni 2005 nr. 46 endringer i lov 17. juli 1998 nr. 56 om årsregnskap mv. (regnskapsloven) og enkelte andre lover (evaluering av regnskapsloven)), which amended the Accounting Act of 1998 not to introduce any explicit provisions on setting accounting standards and the legal status of accounting standards.

A Report of Finance Committee (Innst. O. nr. 67 (2004–2005): Innstilling fra finanskomiteen om lov om endringer i lov 17. juli 1998 nr. 56 om årsregnskap m.v. (regnskapsloven) og enkelte andre lover (evaluering av regnskapsloven)) basically accepted the assessment in the 2003 Report of the Accounting Act Committee and the Accounting Bill of 2004 and agreed with the proposal of the Government that the Accounting Standards Board would continue setting Norwegian accounting standards in the light of good record in the past while the Norwegian accounting standard setting body should involve in the development of rules on simplified application of the International Financial Reporting Standards. Moreover, the Report took the position that it is necessary that important interested parties such as reporting entities, users, auditors, scholars and SMEs are represented in setting accounting standards and it is reasonable for the Ministry of Finance to sit at a standard setting body as observer. Furthermore, it recognized the necessity for

48 As of 1 January 2013, the Board consists of nine members: a member from each of the Big 4 (KPMG, Deloitte, PwC, Ernst & Young), a member from a medium-size accounting firm (BDO), a member from the Norwegian Institute of Public Accountants, a member who represents preparer and two academic members. In addition, an observer from the Ministry of Finance sits at the Board.

49 However, at present, the cost of the Accounting Standards Board is still financed mainly by the income from accounting seminars (regnskapskonferanse) mainly. According to the annual report of 2010, knowledge provision revenue accounted for approximately 90% of revenue, the rest 10% is revenue from fund management, and year loss has occurred <http://www.regnskapsstiftelsen.no/arch/_img/9552298.pdf>. The Board members are unpaid and the Norwegian Institute of Public Accountants has undertaken Secretariat.

public funding to an accounting standard setting body from the point of view that it is the public responsibility to put an appropriate framework of financial reporting in place (s.41–42).

(4) Current situation of doctrines

After discussions like this, for example, *Huneide* and others conclude that “good accounting practices” should be consistent with statutes and orders on accounting, authoritative recommendations and norms (utoritative anbefalinger og normer), established accounting theory rooted in research and practices, accepted practices (anerkjent praksis) of bookkeeping and recording on various business cases as well as fundamental quality requirements and accounting principles such as orderliness, clarity, reliability, integrity, objectivity and consistency (Huneide, Pedersen, Schwencke og Haugen [2008] s.35).

From another perspective, *Lundesgaard* points out as follows: “good accounting practices” represent extended regulation (regulering) that has a legal status (rettstilstanden) to promote the ensuring quality of financial reporting; “good accounting practices” function as a dynamic and flexible tool addressing the need for additional provisions more specific than the provisions in statutes and orders (While a troublesome process is required in order to amend the law, it is much easier to alter “good accounting practices”); and, in very rare cases, there is a possibility for “good accounting practices” to override statutes and adaptive and more realistic practices might lead to the departure (Lundesgaard [2006] s.84–85). Then, when practices (praksis) are codified, documented and have become more generally accepted (allemen aksept), they take a form that is visible and will be used as guidelines (retningslinje). In this way, practices have been formalized or codified (kodifiseres). He explains that auditors play an important role in this process, in which good and generally accepted practices become “good accounting practices” (Lundesgaard [2006] s.87).

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Chapter 4 Finland

1 Legal Framework

In 1925, the Accounting Act (Laki Kirjapitovelvollisuudesta) was enacted⁵⁰ and Article

50 See e.g. Virtanen [2004].

2 of the Act stipulated that accounting should be in accordance with the general principles of accounting and good business practices (hyvä kauppiastapa/god köpmannassed)⁵¹. The new Accounting Act (Kirjanpitolaki (kumottu), 701/1945) was passed in 1945 and had more detailed provisions. The Accounting Act of 1973 (Kirjanpitolaki 10.8.1973/655)⁵² provided in more detail and the Accounting Board (kirjanpitolautakunta) was created under the Ministry of Trade and Industry (7 LUKU, 34 §). In response to the accession to the European Community in 1995, in order to transpose the EC Fourth Company Law Directive and the Seventh Company Law Directive, the Accounting Act of 1997 (Kirjanpitolaki 30.12.1997/1336) was enacted⁵³ instead of the Accounting Act of 1973 after the Accounting Order of 1992 (Kirjanpitoasetus (kumoutunut) 30.12.1992/1575)⁵⁴. Chapter 1, Article 3 of the Accounting Act of 1997 stipulates that persons subject to an obligation to maintain accounts should keep accounts according to good accounting practices (hyvää kirjanpitolapaa/god bokföringssed).

2 Accounting Board

Chapter 8, Article 2 of the Accounting Act of 1997 provides that the Accounting Board is established under the Ministry of Trade and Industry. The Board can give, at the request of agencies, organizations, businesses or municipalities or by entities subject to an obligation to maintain accounts, instructions (ohjeita/anvisningar)⁵⁵ or opinions (lausuntoja/utlåtanden)

51 Moreover, the Financial Statements Act (Laki tilinpäätösten julkisuudesta, 118/1928), which provided the disclosure of financial statements, was enacted in 1928.

52 Finnish accounting practices and Accounting Act of 1973 was under strong influence of *Saario's* the expenditure-revenue theory (Majala [1994] p.71–73, 74–75, Näsi [1995] p.83–85, Aisbitt [2002] p.112–113).

53 For details, see e.g. Rätty [1998], Virtanen [2007].

54 See e.g. Rätty [1992]. Pirinen [1996] notes that lively discussions took place between those in favour for adopting the IAS and those in favour for maintaining the traditional position based on the expenditure-revenue theory (See also *Kirjanpitolainsäädännön uudistamiskomitean mietintö*, Komiteamietintö 1990:45, which is the report of the Accounting Act Reform Committee for 1992 amendments).

55 According to *Majala*, there were four types of instructions: general instructions that explain the Accounting Act and/or accounting theory; individual instructions given on the application of a company and published anonymously; individual instructions given on the application of a company and unpublished; and individual instructions given by a letter of the Secretary (Majala [1994] p.80). For the matters dealt in general instructions, see e.g. Majala [1994]p.93; Majala [2001] p.965.

on the application of the Accounting Act (paragraph 1)⁵⁶. Moreover, the Accounting Board may, for special reasons for certain time in individual cases, grant exemptions so long as it does not conflict with the provisions of the EC Fourth Company Law Directive and the Seventh Company Law Directive (paragraph 2).

The Accounting Board is composed of the President, the Vice President as well as not less than 6 and not more than 10 members. The Government appoints the member (and an alternate member for each member except for the President) for the term of 3 years. The members of the Accounting Board should be familiar with accounting while at least one member and his substitute also requires law degree (paragraph 4). In practice, there are 2 members from the Government (one of them is the President), 2 members from the Institute of State Authorized Public Accountants (KHT-yhdistys), 1 member from business community, 1 member from universities (scholar) and 1 member from the Confederation of Finnish Industries. From this feature, it is noted that accounting standards setting in Finland is corporatism (Artsberg and Schwencke [2003] p. 313 [Table 13.2], 314–315, Pirinen [2005] p.215).

The Accounting Standards Board has a quorum when the President or the Vice President and at least half of the other members present. In addition, at least one member that holds law degree should be present when the Board deals with applications for exemption referred to in paragraph 2 (paragraph 5)⁵⁷. Though the Accounting Board has the Public Accounting Subcommittee and the International Financial Reporting Standards Subcommittee, it may set up permanent sections or *ad-hoc* sections⁵⁸ as well.

Those who do not belong to the Accounting Board can be invited to the subcommittees.

56 The Board can reply to inquiries from the Financial Supervisory Authority except for those relating to the IAS/IFRS (paragraph 3).

57 According to Article 4 of the Ordinance concerning the creation of the Accounting Board (Asetus kirjanpitolautakunnasta 19.10.1973/784), The Board is convened by the Chairman, or in his absence, by the Vice President, or when at least half of the other members demands to convene. When disputes arise, the decisions are made by the majority of those present, and if the votes are equal, the opinion that the President has voted in will be the decision of the Board.

58 Article 1c of the Ordinance concerning the creation of the Accounting Board stipulates that an *ad-hoc* section is composed of the Chairman and other members not less than 3 but not more than 6 elected from the members or alternates of the Board. The Board may authorize the section during a given time or occasionally give opinions and grant exemptions in matters within the Board's competence, with the exception of the principal matters and matters involving significant changes in accounting practice.

The composition, appointment and quorum of the subcommittees shall be given by a Government decree (paragraph 6)⁵⁹. The Ministry of Trade and Industry is the Secretariat of the Accounting Board (paragraph 7).

While the Accounting Board's decision may not be appealed (Accounting Act of 1997, Article 8, paragraph 8), the instructions of the Board are not legally binding (*see e.g.* Majala [1994] p.79)⁶⁰. According to Article 1 of the Ordinance concerning the creation of the Accounting Board, the Accounting Board may, through the Trade and Industry Ministry, issue general advice (*neuvoja/allmänna råd*) and guidance (*ohjeita/anvisningar*) on the application of the Accounting Act and accounting when the Board believes grounds to exist for the promotion of uniform good accounting.

However, generally speaking, pronouncements issued by an accounting standard setting body are not legally binding in Nordic countries even in cases where they are promulgated by the ministries or the administrative authority. They are only guidelines or recommendations and cannot be comparable with “accounting standards” in the United States. The authority of the pronouncements depends upon the ability of the issuing body to persuade that the pronouncements represent good accounting practices and are one of the evidence at the best that they are agreed good accounting practices⁶¹.

3 Institute of State Authorized Public Accountants

The Institute of State Authorized Public Accountants had made a lot of proposals and issued recommendations on accounting rules, most of which were based on the IAS (Artsberg and Schwencke [2003] p. 313; Pirinen [2005] p.216). They could not, however, gain enough support during 1980s since they were not consistent with the accounting theory widely accepted in Finland then (Majala [1994] p.69–70). Though the recommendations of

59 Article 1b of the Ordinance concerning the creation of the Accounting Board stipulates, for example, that the IFRS Subcommittee consists of the Chairman, a Vice Chairman not less than 4 and not more than 6 members, all of whom are appointed by the Ministry of Trade and Industry. The IFRS Subcommittee has a quorum when the chairman or vice-chairman and at least half of the other members present.

60 Majala argues that the Accounting Board cannot create rules but clarifies and explains existing rules (Majala [2001] p.964).

61 Artsberg and Schwencke [2003] p. 312. For Finnish position, *see* Pirinen [2005] p.216.

the Institute were optional in principle because the Institute never had the authority to set legally binding standards (Majala [1994] p.77), they could become the practice as the Institute recommended or even insisted on companies to adopt them or the member of the Institute requested their clients to apply them (Majala [1994] p.70).

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