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Bachelor's thesis

Accounting

THE EFFECTS OF NATIONAL LEGISLATION ON THE IMPLEMENTATION OF IFRS IN FINLAND AND RUSSIA

KANSALLISEN LAINSÄÄDÄNNÖN VAIKUTUKSET IFRS:N IMPLEMENTOINTIIN SUOMESSA JA VENÄJÄLLÄ

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Abbreviations used in the study

AO	Russian joint-stock company (Акционерное Общество)
CIS	Commonwealth of Independent States
EC	European Commission
EEC	European Economic Community
EU	European Union
FAS	Finnish Accounting Standards
FASB	Finnish Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
KPL	Kirjanpitolaki (Finnish law on accounting)
OAO	Russian open joint-stock company (Открытое Акционерное Общество)
Oyj	Finnish public stock company (julkinen osakeyhtiö)
PPE	Property, Plants and Equipment
PwC	PricewaterhouseCoopers
RAS	Russian Accounting Standards
SIC	Standing Interpretations Committee
US GAAP	United States Generally Accepted Accounting Principles

1 INTRODUCTION

1.1 Background of the study

After World War II international trade took off in an unprecedented scale and as a result the need for accounting harmonisation became apparent. Several organisations tried their hand at grappling the task from the 1950s to 1970s. In 1973 the most important one of them all, the IASC (International Accounting Standards Committee), was founded by accountancy bodies from ten countries with Sir Henry Benson at the helm. Two years later, in 1975, the organisation began introducing IAS (International Accounting Standards). As time passed and the world started to adopt IAS, shortfalls and ambiguities in the standards became clearer and clearer. As a response, the IASC decided in 1996 to form the Standing Interpretations Committee (SIC) to further explicate IAS in situations where the standards are indistinct or silent. (Camfferman & Zeff, 2006, p.1-4, 21-22, 96, 238)

The IASC restructured itself in 1999-2000 and consequently, in 2001, the IASC was succeeded by the IASB (International Accounting Standards Board) which began issuing International Financial Reporting Standards (IFRS) as successors to IAS. The Standing Interpretations Committee was simultaneously superseded by the International Financial Reporting Interpretations Committee (IFRIC). The IASB and the IFRIC now function under the IFRS Foundation. Today the IASB is comprised of 15 full-time board members each with one vote. The European Union has required the use of IFRS from entities listed in its member states since 2005. The United States has followed suit by allowing foreign issuers to file their financial statements using IFRS since 2007 and the US GAAP (United States Generally Accepted Accounting Principles) are also expected to substantially converge with IFRS in 2011. The use of IFRS is mandatory, permitted or otherwise endorsed in many other countries around the world as well, which has meant a substantial growth in IFRS' influence in international accounting. (Camfferman & Zeff, 2006, p.1; IASB, 2011)

Modern Finnish accounting (since 1973) was based on the revenue and expense theory of Professor Martti Saario, this meant a revenue orientated take on accounting, which has first and foremost served creditors and taxation purposes, according to Leppiniemi (2003). This started to change as Finland joined the EU in 1995 and joining meant obeying EU directives. Among other laws the Finnish accounting law was therefore revised, first in 1993 and later again in 1997 so as to comply with the directives four and seven of the European Economic Community (EEC), directives which themselves were devised to unify European accounting principles. (Leppiniemi, 2003, p.13; Kallunki et al., 2008, p.20)

These changes were Finland's first steps toward the principles of IFRS. Later on the EU decided to implement IFRS across the Union and since 2005 all listed entities in the European Union have had to produce consolidated financial statements as per IFRS. As a part of European Union, this has also meant changes for companies and the legislation on accounting in Finland. The changes in legislation have however, not abolished the national accounting standards nor have they ended their function as the main tool in computing tax liabilities. This has lead to a situation in which listed companies have to file statements using at least two different sets of accounting standards. (Haaramo & Räty, 2009, p.37-45; Kallunki et al., 2008, p.20; Leppiniemi, 2003, p.31-32).

The Russian Federation, which emerged from the ashes of the Soviet Union, has quickly adopted the Western concept of accounting. In the Soviet era private entrepreneurship was virtually nonexistent and mostly banned. Accounting was very rigid and the information it produced mainly served monitoring, controlling and statistical purposes. (Preobragenskaya & McGee, 2004, p.4-6) After the fall of the Soviet Union, Russia has gone through enormous changes in all walks of life as it has transformed from a centrally planned to a market economy. Probably the most important change in accounting was in 1998, when the Russian Ministry of Finance began introducing RAS (Russian Accounting Standards), which have been designed in accordance with IFRS. One may therefore expect that in the future accounting in all Russian companies will be based on IFRS. (Matilainen, 2006, p.34-35)

The use of IFRS is currently compulsory only for banking institutions in Russia, which have had to file financial statements using IFRS since 2004 (Gethin, 2006). General obligation for listed companies in Russia to produce IFRS statements will likely be forced in 2015 at the earliest, according to estimates made by Ernst & Young (2011). Like Finnish accounting, modern Russian accounting is revenue oriented: financial statements serve as basis for taxation of companies. Ergo, Russian federal law dictates that companies need to compute tax liabilities as per RAS, which may in effect mean that some Russian companies have to use at least two sets of accounting standards – like their Finnish counterparts. (Gethin, 2006, p.26; Ernst & Young, 2011 p.35; McGee & Preobragenskaya, 2009, p.334)

IFRS aim to uniform financial statements internationally, easing analysis of companies functioning in different countries, which in turn makes comparison between publicly traded securities less complicated for international investors. Widespread implementation of IFRS is expected to lead to more liquid and thus more cost-efficient security trading. (Jermakowicz & Gornik-Tomaszewski, 2006, p.171; Kallunki et al., 2008, p.15) Critics of IFRS, such as Alali & Cao (2010) and Nobes (2006) feel however, that as IFRS are principle-based they allow different interpretations which may lead to inconsistent implementations and that the IASB may sometimes be politically influenced when setting new standards. Modified versions of IFRS, have also emerged as some countries have felt the need to protect their national interests; in the EU, for example, IFRS are not implemented automatically and without exception as the obligation is only limited to standards that have been endorsed by the European Commission, according to Jermakowicz and Gornik-Tomaszewski (2006). This may lead to a situation in which IFRS statements in the EU may differ from those of companies outside the EU. These potential anomalies between countries in IFRS reporting due differences in national accounting standards and national legislation make an interesting and multidimensional course of study. (Alali & Cao, 2010, p.81-84; Nobes, 2006, p.240-242; Jermakowicz & Gornik-Tomaszewski, 2006, p.171)

1.2 Objectives of the study

This study aims at uncovering potential differences in implementation of IFRS in Finnish and Russian companies due to differences in national laws. The differences in implementation are to be examined mainly by comparing national legislation and financial statements.

The main objective can be rephrased in the form of a question as follows:

- Does national legislation influence the implementation of IFRS and resulting statements in Finland and Russia?

The main objective does not asses the reasons for or the relevance of the possibly different treatments of accounting transactions, assets or liabilities in IFRS implementation between the two countries, nevertheless this should be examined as well.

Secondary objectives of the study can then be formed as questions accordingly:

1) What are the reasons behind differences in IFRS statements between Finnish and Russian companies?
2) Are differences in IFRS statements between the two countries of any relevance?

The significance of potential anomalies in IFRS statements needs to be assessed as there are bound to be differences between statements prepared by separate companies due to the principle-based nature of IFRS.

1.3 Limitations of the study

As IFRS is primarily used by listed companies, the study is solely limited to the implementation of IFRS in listed companies. The fourth chapter, a case study, concentrates on the financial statements of two companies: YIT Group Oyj and OAO LSR Group, which have been selected due to their similarity. Geographically the study is centred on Finland and Russia, although material and literature concerning other European or CIS (Commonwealth of Independent States) countries will be utilised when applicable. International Financial Reporting Standards will not be reviewed in

depth, as the study aims at uncovering sources of disparity in general by referring to literature and by analysing the two case companies.

1.4 Methodology of the study

Methodologically the study is theoretical and descriptive. Material employed in the study is from existing sources, including literature (books, articles etc) and numerical data (financial statements).

Previous literature concerning IFRS in Russia is scarce: there are only a handful of paper written on the subject and only a few authors. Robert McGee and Galina Preobragenskaya have published a number of papers on the subject (2003, 2004, 2006, 2008, 2009). Alexandra Bagaeva has also written about Russia and IFRS (2008, 2009, 2010).

Other relevant material on IFRS in Russia is mainly published by the Big-4 accounting companies (Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers) and the Russian Ministry of Finance, as the Big-Four accounting firms are currently among the few competent consultants on IFRS in Russia according to Preobragenskaya and McGee (2004). This paucity of studies and material on IFRS in Russia is probably due to the uncertainty and constant change that characterises the Russian Federation as a whole, including its legislation. (Remes, 2010, p.22-25; Preobragenskaya & McGee, 2004, p.45)

In contrast, there is a plethora of literature concerning IFRS as applied in Finland, e.g. Leppiniemi (2003), Kallunki et al. (2008), Haaramo & Räty (2009), not to mention papers on IFRS in EU, which would be applicable to the Finnish business environment. The reliability and comparability of IFRS statements has also been studied to some extent, for example by Alali & Cao (2010) and Nobes (2006), yet there are no studies on possible anomalies in Russian or Finnish companies' IFRS statements.

1.5 Structure of the study

The first chapter of the study, the introduction, gives a brief overview of the history and current state of affairs of IFRS and national accounting in Finland and Russia. The second chapter of the study centres on briefly introducing IFRS and national accounting in the two countries through principles, legislation and tradition. This is carried out mainly by examining literature on national accounting standards and IFRS.

The general differences of IFRS and national standards as well as differences between the case countries and IFRS are under scrutiny in the third chapter of the study. Current and upcoming legislation on the implementation of IFRS are also looked into. A case approach to the problem is taken by comparing financial statements of two peer-companies in the fourth chapter of the study, as companies YIT Group Oyj and OAO LSR Group are investigated. The fourth chapter is followed by conclusions.

2 INTRODUCTION TO THE IFRS AND THE NATIONAL ACCOUNTING LEGISLATION OF FINLAND AND RUSSIA

2.1 Accounting in Finland

Finnish accounting is mainly regulated by the accounting law, accounting decree and the national accounting board of Finland (FASB), an advisory government body, which gives instructions and statements on the Finnish GAAP (Generally Accepted Accounting Principles), also known as Finnish Accounting Standards (FAS) (Kinnunen et al., 2005, p.11-13). The accounting law lays down the basic objectives of accounting, statutory reports and how they should be presented among other things.

The national accounting legislation in Finland has traditionally been revenue oriented and its primary purpose to calculate taxable revenue. Professor Martti Saario, whose brainchild the revenue-expense theory was, considered the balance sheet only a mere transitional tool between two fiscal years. This focus on revenue and expense has also meant narrow-mindedness on asset revaluations, use of fair-value etc. This has started to change however, as EU membership has forced Finland to take a more IFRS-oriented perspective to accounting, which has essentially materialized as two major changes in Finnish accounting law. (Leppiniemi, 2003, p.13, 31-32)

The first major change in legislation was in 1997, when the Finnish accounting law was revised to accommodate directives of the EEC. The new law effectively initiated withdrawal from the revenue-expense theory and therefore revenue orientation. Besides adhering to the requisitions of the EU, the Finnish legislators also sought to take international accounting harmonisation to account, especially the IAS. Revaluations were no longer unheard of in the Finnish accounting legislation, as prior to the changes in legislation Finnish accounting had a historic approach to valuations. (Leppiniemi, 2003, p. 13; Kallunki et al., 2008, p.18)

The latest and most notable is the amendment of 2004, which has compelled listed companies to produce consolidated statements using IFRS since 2005 and it was conceived due to the harmonisation efforts of the EU. The current law also allows the use of IFRS for other companies as well. The Finnish accounting mindset has then

gradually moved towards the principles of IFRS, which has manifested as a more balance sheet oriented point of view, yet the new legislation has not rendered FAS (Finnish Accounting Standards) useless. In practice, Finnish listed companies need to provide financial statements for the investors using IFRS and for the authorities using FAS. The use of fair value is now also permitted to some extent, for example financial instruments may be measured in fair value according to the amendment. (Leppiniemi, 2003, p.13, 38-39; Kallunki et al., 2008, p.119; KPL, chapter 5: 2a §)

2.2 Accounting in Russia

The Russian Federation has existed only for two decades in its present form. Formerly part of the Soviet Union, Russia has had to completely reinvent itself over the course of its existence thus far – and the process of transformation from a centrally-planned economy to a market economy has not been an easy one. Even private enterprise in the Soviet Union was not private enterprise in a Western sense: companies were owned by the state, which meant no ostensible risk and very little requirements on reporting or transparency. Hyperinflation, financial crises, crime and corruption among other things have also blighted the new Russia for the entire course of its existence. Despite all the difficulties, Russia has managed to introduce new, contemporary legislation and implement Western-style accounting standards to the country (Matilainen, 2006, p.33-34; Puffer & McCarthy, p.286).

Russian Accounting Standards (or RAS) are based on IFRS and issued by the Ministry of Finance of the Russian Federation. The project began in 1998 and is a going concern with new standards intended to be issued and old ones revised in accordance with changes of IFRS (KPMG, 2010, p.51-52). This is not to say that Russian standards would be pure translations and therefore analogous with IFRS however, as in many cases RAS are simplified, shorter and cover a mere fraction of the content of a similar IFRS. Nevertheless, the new IFRS-based standards have not obliterated the state-oriented mission of accounting in Russia, on the contrary: accounting information is still revenue oriented and above all used for taxation by the state (McGee & Preobragenskaya, 2009, p.334; McGee & Preobragenskaya, 2004, p.10).

Veijo Seppänen (2010), an auditor and Russia expert of Ernst & Young Finland, claims that “Russian accounting requirements on form are very strict, yet substance doesn’t really matter”. He mentions inventory as an example of form superseding substance: the revision of inventories is mostly done “on paper” and according to procedure, yet obsolete and nonmarketable goods are usually not impaired, as it is either formally very challenging or such impairment is not allowed in tax accounting. Inventories of Russian companies as per accounting may thus not reflect reality. Seppänen holds that financial statements prepared according to RAS may not give a truthful and adequate description of the entity’s revenue and financial position as the concept is understood in Finnish or international standards. Also, even as Russia has managed to reinvent itself after the fall of the Soviet Union, Russian accounting environment has still not completely adjusted market-oriented accounting, according to Preobragenskaya and McGee (2003). This is mainly because of the Soviet mentality of “executing orders from the top” and the Soviet tradition that sets overly high requirements on complying with form. The problem is not eased by the fact, that many a Russian accountant have been raised during the Soviet era and such principles have hence been very much ingrained in their psyche. (Preobragenskaya & McGee, 2003, p.12-13; Seppänen, 2010, p.18-21)

The writers assert that the national tradition of form-over-substance and respecting the chain of command has lead to a situation in which Russian accountants try to get by without making any judgements of their own. Rather than utilising generally accepted accounting principles, they seek to find any compatible situations within the legislation to evade a circumstance in which they would need to be personally responsible for the actions taken. Preobragenskaya and McGee (2003) and Seppänen (2010) also believe that the transition to more autonomous and substance-oriented accounting practices in Russia will probably be a long one. This is because there is currently little outside pressure for change as the greatest motivator, possibility of a WTO membership, is still in the distant future. (Preobragenskaya & McGee, 2003, p.12-13; Seppänen, 2010, p.18-21)

According to KPMG (2010) Russian accounting is regulated by a system of legal acts in four different levels. The first level includes Federal Law on Accounting, Civil Code of the Russian Federation and company laws (laws on joint stock companies, limited

liability companies and small businesses). These laws define the concept of company in the Russian Federation, company types and the rights and duties of companies, they stipulate the way accounting should be set up and maintained. The first tier of laws also specifies requirements on accounting, reporting and publishing of financial statements. Smirnov (2006) asserts that Russian Federal Law on Accounting (FZ no.129) requires only joint-stock companies (AO) to publish their financial statements, while setting no requirements on the provision of public access to these documents. This lack of transparency would also seem to apply to IFRS financial statements, as it has not been specified otherwise in the law, yet it can be speculated that companies with foreign investors would not act in such a secretive manner. (Smirnov, 2006; KPMG, 2010, p.50-51)

Russian Accounting Standards make up the second level of regulation. Fundamentally all companies should prepare their financial statements according to RAS, with the exception of listed and foreign companies. According to PricewaterhouseCoopers (2010), listed companies are allowed to use either IFRS or US GAAP, while foreign companies are permitted to use the GAAP of the country in which they reside as long as they don't diverge from IFRS. This does not completely exempt these companies from the use of RAS however, as tax liabilities still need to be computed according to them. In effect, this means that listed companies need to use at least two sets of standards in accounting. Matilainen however claims that most Russian companies have only adhered to RAS for the parts that concern tax accounting. He says this is due to inadequate monitoring of compliance with accounting legislation as well as the state-oriented way of thinking among Russian accountants, who consider accounting itself to be of no significant value. (KPMG, 2010, p.50-51; Matilainen, 2006, p.33-34; PwC, 2010, p.45)

The third level consists of methodological instructions on accounting as well as recommendations on procedures in some types of accounting activities. The Chart of Accounts and associated instructions are among the most important documents of this level of the Russian accounting regulation. (KPMG, 2010, p.50-51)

The fourth level of regulation comprises documents issued by the company itself, in which the company defines its accounting policies as approved by the company's internal order. The company has also the right to develop accounting methods independently in case it encounters situations that are not identified in relevant accounting standards. Adoption of such accounting methods requires the company to include and disclose them in its accounting policies. (KPMG, 2010, p.50-51)

2.3 International Financial Reporting Standards in brief

International Financial Accounting Standards aim standardise financial data to increase comparability, which in is turn is presumed to decrease transaction costs in security trading when implemented on a wide scale, according to Jermakowicz and Gornik-Tomaszewski (2006). IFRS have been devised to primarily serve the information needs of the investors, as their information need fulfils the information of most other interest groups. They consist of three parts: theoretical framework, standards and interpretations. IFRS are called principle-based as they are based on broad rules, the framework. (Haaramo & Räty, 2009, p.84; Mirza et al., 2006, p.5; Jermakowicz & Gornik-Tomaszewski, 2006, p.171)

The framework defines the objectives of financial statements, the characteristics that determine usefulness of information and the concepts of capital and capital maintenance in IFRS. In addition, the framework also holds the general principles and underlying assumptions on producing financial statements as well as establishes the basic structure of financial statements. Laying the foundation, the framework primarily assists and guides the IASB in developing and revising standards. It also acts as the basis for judgements on situations that are not defined by the standards or the interpretations. (Mirza et al., 2006, p.7; Haaramo & Räty, 2009, p.30-31)

In general there are two assumptions underlying the preparation and presentation of financial statements according to IFRS. The first one is accrual basis, which assumes that accounting events are to recognized and recorded when they occur. The second assumption is going concern, which means that the entity will continue in operation for the foreseeable future. The framework identifies five qualitative characteristics that make the information in financial statements useful: understandability, relevance,

reliability, comparability and, true and fair view. Faithful representation, prudence, materiality and substance over form are required qualities also highlighted in the framework. Elements of financial statements according to the IFRS are assets, liabilities, equity, income and expenses. Components of financial statements are: statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement and notes. The meaning cash flow is emphasized as information most important to the user in the framework. (Mirza et al., 2006, p.7-13; Haaramo & Räty, 2009, p.85; Kallunki et al., 2008, p.20-31)

The standards (IAS/IFRS) themselves specify how events should be recorded and treated in accounting according to IFRS. Each standard has a predetermined scope and responds to issues relating to the rubric of the standard. Entities should adopt only standards that are relevant to them, as many of the standards are industry-specific. The interpretations (SIC/IFRIC) are the IASB's way of providing methodological instructions on the application of standards. They are then produced to clarify situations in which the standards are either vague or likely to be interpreted erroneously. The standards and interpretations aim to create a cohesive set of principles and instructions, that result in high-quality, transparent and comparable financial information and reports. (Mirza et al., 2006, p.1, 5)

3 DIFFERENCES BETWEEN IFRS AND NATIONAL ACCOUNTING STANDARDS OF FINLAND AND RUSSIA

3.1 General differences of IFRS and national accounting standards

IFRS contain numerous instructions and rules on computing and handling accounting transactions. Implementation of most of the rules is compulsory as they aim to harmonise financial statements. This demand for comparability has lead to a situation, in which IFRS differ from national standards by being substantially more detailed and copious: IFRS have more rules dictating the treatment of accounting transactions compared to the national accounting standards of Finland, for example. (Halonen et al., 2006, p.15)

Even as IFRS are typically more detailed, they are not as specific as national standards due to the principle-based nature of IFRS. According to Alali & Cao (2010) SIC and IFRIC interpretations are inconsistent and inconclusive due to the fact that IFRS are principle-based. IFRIC has also outlined that it would not “answer every question put to them; on the basis that judgment must be used in application of IFRS”. The statement then reaffirms the fact, that there is room for broad interpretation in the application of IFRS, which may lead to different accounting treatments and thus reduce comparability of financial statements. (Alali & Cao, 2010, p.84)

Another considerable difference is in perspective. IFRS statements have been designed to mainly serve investors, whereas national standards in Finland and Russia are mainly driven by the information need of the tax collector and aim to compute taxable revenue. The investor point of view then requires the assumption of segregated revenue and tax liability calculations. (Kallunki et al., 2008, p.19-20; Haaramo & Räty, 2009, p.32)

Like Alali and Cao (2010), Nobes points out the emergence or possible emergence of “localised versions” of IFRS, as is the case of the EU, which reserves the right not to endorse a standard. Nobes also refers to Australia where national standards have been transformed to closely coincide with IFRS, yet differences remain. The situation seems somewhat similar to that of Russia. Another possible reason for different ver-

sions of IFRS lies in the implementation of new standards, as early application of standards is usually allowed. In effect, two peer companies may use different versions simultaneously. The same problem may also arise in the EU because of the required endorsement of the EU Commission before adopting a new standard. The process may take months and consequently lead to a situation in which a new standard is in force elsewhere in the world, but not in the EU. As a result of the endorsement process the EC could choose to reject a standard entirely or only partly recommend its implementation. (Alali & Cao, 2010, p.84; Nobes, 2006, p.236-237)

Different translations of IFRS may also lead to departures from IFRS as intended by the IASB. According to Nobes (2006), EU regulations dictate that the various translations of IFRS into European languages have legal status in their respective countries. As is always the case in translations, it is possible that meanings may change or be lost in the translation process. The writer also refers to Portugal, where such differences have been encountered due to translation. Poor, unclear or obsolete translations have also frustrated the Russian users of IFRS, according to McGee and Preobragenskaya (2004, p.14; 2008a, p.318).

According to IAS 8, in the event that a situation is not addressed in the standards, the company should resort to the IASB's Framework, to IFRS related to the problem, and to other standards based on an analogous framework to fill the gap. The companies may then resolve a problem in their accounting practices with a myriad of ways, the resolution being very likely influenced by national traditions. This is also the case with interpretations: if no suitable interpretation is found in IFRS, the company will very likely choose a course of action influenced by national traditions. Overt and covert options may also prove to be problematic for the same fundamental reasons. The amount of overt options and gaps are declining, as the IASB has sought to rectify these problems. Covert options on the other hand are a necessity for the most part, as environments vary (currency, laws etc). (Nobes, 2006, p.237-240)

As opposed to IFRS, national accounting standards are fundamentally designed to work in the national environment of the country in question. Since IFRS aim to provide reliable and comparable statements of companies across the globe they need to take national differences into account. IFRS are largely based on fair-value account-

ing in order to bridge the gap between market prices in different countries. According to Ball (2005), spreads between purchasing and selling prices can be large enough to cause substantial uncertainty about fair value and hence induce noise to financial statements. He also implies that fair value contains more information than historic cost, provided that the market price of the commodity is observable and not influenced by managers' estimations. Depreciations and revaluations are also mostly based on fair value and therefore ultimately on estimations. Because national traditions, law and tax implications vary on both matters, they may influence these estimations, which in turn may cause anomalies in IFRS financial statements between entities of different origin. It can also be argued that differences may also arise due to incorrect estimations, deliberate or not. (Ball, 2005, p.19-21; Nobes, 2006, p.241-242)

As indicated before, national accounting practices may have notable effects on IFRS statements of companies and result in disparity in reporting. Some of these differences may originate due to accounting policies that companies adopt upon first-time adoption of IFRS. One source of such difference is due to the option for the entity to continue with accounting practices as per GAAP previously employed on goodwill which has accumulated from business combinations prior to the implementation of IFRS within the company (IFRS 1). National treatment and principles on goodwill vary, which may result in inconsistency between entities that may last for many years. (Nobes, 2006, p.242)

3.2 Differences between FAS and IFRS

IFRS and Finnish accounting standards differ in many respects, beginning from principles. Finnish accounting is rule-based as it consists of numerous specific and detailed rules, whereas IFRS are universal and thus principle-based, meaning more room for interpretation in order to attain versatility. Another difference is the presumed primary user of financial statements: FAS have been originally designed with the information needs of the tax authorities and creditors in mind, as opposed to IFRS which have been conceived to serve investors, as their needs will meet most of the needs of other users. Effectively IFRS divides taxation and revenue accounting, when FAS aims at calculating taxable revenue. The difference in perspective also manifests itself as a difference in orientation: FAS are revenue oriented, whereas

IFRS are balance sheet oriented. (Kallunki et al., 2008, p.18-19, p.119; Mirza et al., 2006, p.5; Leppiniemi, 2003, p.13, 38)

Financial statements prepared according to FAS consist of four parts: balance sheet, income statement, funds statement and notes. Changes in equity are not required as a separate report, as opposed to IFRS. This is mainly because of the different intended main user of the financial reports; IFRS seeks to provide a reliable account of the entity's financial position, while FAS primary aspiration is to provide sufficient information on income for the tax collector. Listed companies are also required to provide a report of activities, which is not required in IFRS statements. Notes and balance sheet are also considerably more important in IFRS than FAS statements due to the difference in accounting orientation. Revaluations and the use of fair-value are very limited according to FAS, while IFRS broadly require or favour the use of fair-value. The amount of accounts on the balance sheet is also higher; reason being the balance sheet orientation of IFRS. (Mirza et al., 2006, p.13; Kallunki et al., 2008, p.23-29)

A possible source of differences is the fact that standards need to be endorsed by the European Commission before they may be implemented in the EU. This may cause temporal differences between companies of EU and non-EU origin, as a new standard might not be enforced within the EU if the endorsement process has not been completed and the standard authorised for use. This might result in a situation in which IFRS statements as prepared in the EU may differ from those of prepared according to IFRS as stipulated by the IASB. The idea behind endorsement process of the EU Commission is to assess the impacts of new or revised standards on companies within the European Union. It can be speculated that the real motivations for the need of such endorsement process are more political than practical; the EU is the largest and most important single supporter of IFRS and therefore has the leverage needed to coerce the IASB, while the endorsement process could serve as tool in the coercion. (Jermakowicz & Gornik-Tomaszewski, 2006, p.171)

3.3 Differences between RAS and IFRS

Even as Russian Accounting Standards are based on IFRS there are still differences, two of the most notable being different orientations and primary users of financial information. RAS are revenue oriented and the primary user of the information is the state, in contrast to IFRS which produce information predominantly for investors by being balance sheet oriented. Another clear difference is that IFRS are based on principles, the Framework, whereas RAS tend to be much more detailed, conceptual and dogmatic. (Bagaeva, 2010, p.41; Mirza et al., 2006, p.13; McGee & Preobragenskaya, 2004, p.10)

Financial statements prepared according to RAS consist of balance sheet, profit and loss statement, report on changes in equity, statement of cash flows, annex to the balance sheet, report on the intended use of earnings, notes and audit report. Financial reports produced as per IFRS comprise statement of financial position, cash flow statement, statement of changes in equity, statement of comprehensive income and notes. RAS then requires the entity to include a report on the intended use of earnings as well as an annex to the balance sheet, which are not required by the IFRS. The instructions on reporting were recently revised (July, 2010), yet the amendments did not have any effect on the nomenclature or amount of reports required. (Russian Ministry of Finance, 2010; Garant, 2011; Haaramo & Räty, 2009, p.92)

Another major difference between RAS and IFRS is the definition of reporting and functional currency, as statutory RAS statements may only be prepared in roubles with no exception. This however does not exclude the possibility to include conversions to another currency. The incomplete implementation of accrual basis is also another major departure from IFRS: cash basis is accepted in RAS and quite widely used in financial statements. The goodwill concept is not applied due to the lack of its definition in RAS. (Bagaeva, 2010, p.28; Ernst & Young, 2011 p.38; Matilainen, 2006, p.35)

RAS does not acknowledge the impairment of fixed assets; the value of fixed assets is calculated acquisition price less depreciation. As opposed to IFRS the fair-value concept is not applied either; historic values are used for non-current assets and li-

abilities instead. IFRS concept of inflation has also been omitted from RAS due to the unstable nature of the Russian economy thus far; the state has previously dictated mandatory revaluations of assets during high inflation periods instead. Consolidation guidance exists, yet companies do not entirely comply with the requirement to prepare aggregated financial statements and the requirement is not adequately enforced by the state either. Deferred tax calculations also differ methodologically and therefore need to be revised in order to comply with the requirements of IFRS. According to Ernst & Young (2011), accounting of capital and reserves also differ from the principles of IFRS. (Ernst & Young, 2011 p.38; Matilainen, 2006, p.35-38; Bagaeva, 2010, p.28)

As Russian accounting primarily serves the tax collector supporting documentation must be prepared for both taxation and accounting as per a prescribed format. Seppänen (2010) also asserts that the tax-orientation of RAS has such bizarre manifestations as the fourth section of the Accounting Decree, which designates “the prevention of displaying negative business results of the entity” as one the primary objectives of accounting. In effect, the tax-collector might refuse to accept calculations of unprofitable entities, which result in zero income tax if the company could have represented profit, for example by capitalising expenses. According to Seppänen (2010), this was the case of a certain mid-sized Finnish company functioning in Russia between the years 2007 and 2008. (Deloitte, 2011, p.13-14; Seppänen, 2010, p.18-21)

The accounting regulation system in Russia is another reason for departures from the principles of IFRS, as Russian statutory accounting depends on the methodological instructions issued by the Russian Ministry of Finance, according to Ernst and Young (2011). These instructions may sometimes deepen the disparity of RAS and IFRS. Another possible source for differences is the priority of form-over substance as inherited from the Soviet Union, in contrast to IFRS which require application prioritising substance over form. Seppänen (2010) and Deloitte (2011) claim that some types of provisions (such as bad debts) are not mandatory in RAS even as they are in IFRS. (Deloitte, 2011, p.13-14; Seppänen, 2010, p.20-21; Ernst & Young, 2011 p.38)

The Russian government recently decreed that all future IFRS are to be authorized by the Ministry of Finance for use in the Russian Federation (Governmental Decree of the Russian Federation No.107, 25.02.2011). Essentially this means that Russia reserves the right not to implement any IFRS that it regards as disadvantageous.

Comparability with statements prepared according to IFRS as issued by the IASB will probably deteriorate, should Russia choose not to employ a future standard. The magnitude of possible future differences depends on the standards that might not be implemented. The decision not to implement a standard seems unlikely for the time being at least, as Russia still seeks to join the WTO, which will probably not tolerate such acts of undermining international trade interests from a prospective member.

4 CASE ANALYSIS: YIT OYJ AND OAO LSR GROUP

4.1 The objectives and methodology of analysing the case companies

The following part of the study concentrates on analysing the financial statements of two peer-companies, YIT Group and LSR Group. The objective of the analysis is to discover differences that impair comparability or otherwise possibly mislead the user of the financial information. The companies in question are publicly traded, submit their financial statements according to IFRS and mainly operate in the construction sector. The companies were chosen due to the relative universality of construction business and the companies' equivalence in size.

There are a few considerable differences between the companies two companies, one being markets: a substantial amount of YIT's operations are based outside Finland as opposed to LSR Group, which does business primarily in Russia. Business activities of the companies also differ slightly: besides selling construction services, LSR Group also produces building materials, whereas YIT has no production of its own. Another major difference is in ownership, as YIT's ownership has scattered to a plethora of investors, largest single stake being 11% of shares in April 2011. Oppositely, LSR is primarily owned by StreetLink Ltd. (62,2%, 31 December 2010) and controlled by a single individual, Andrey Molchanov. These differences shall be taken into consideration in the analysis.

The financial statements analysed are audited and official annual reports from the financial year of 2010. All financial data is analysed in euros, which has been achieved by exchanging all LSR Group's rouble based financials to euros. The exchange rate used in the analysis is that of the European Central Bank on December 31, 2010 (1 EUR = 40,82 RUB). (YIT, 2011b; LSR, 2011b; European Central Bank, 2011)

4.2 YIT Oyj in brief

YIT Group Oyj (PLC, public limited company) is among the leading European service companies in building systems and construction, being the building system market leader the Nordic countries and second largest in Germany. The company operates in 15 countries altogether and is listed on NASDAQ-OMX Helsinki stock exchange. Based in Finland, 38% of the company's revenue of financial year 2010 was generated by its operations in Finland. Other key markets of the company include Sweden, Central Europe, and Russia, operations of which make up 15%, 15% and 14% share of revenue, respectively. (YIT, 2011a)

In 2010 the company was divided into three segments:

- Building and Industrial Services
- Construction Services Finland
- International Construction Services

YIT serves industrial, commercial and residential customers; services provided include servicing, renovating, maintaining and constructing of real estate and associated systems. The most important segment of the company was the Building and Industrial Services segment, accounting for 60% of the company's revenue. Construction Services Finland contributed a 28% share of the company's revenue; the rest were generated by the International Construction Services segment. (YIT, 2011a)

In the year 2010, the total revenue of YIT Group was 3 788 million euros, which accumulated a 220 million operating profit. The company had 2 000 million euros in debt (borrowings, accounts payable), 65% of which current. YIT Group held 3 117 million euros in assets at the end of the financial year, 84% of which current. The amount of equity attributable to the shareholders was 880 million euros, 14% of which share capital. The majority of said equity was retained earnings, as it constituted a 756 million euro share of the company's total equity. At the end of the financial year, the company employed a total of 25 832 persons, 36% in Finland. YIT has produced IFRS reports since January 1, 2004. The reporting and functional currency of the group is euro. (YIT, 2011a)

4.3 OAO LSR in brief

OAO LSR Group (OJSC, open joint-stock company) is currently Russia's second largest real estate development and construction company and the largest producer of concrete. Main market of the LSR Group is Russia in addition to which it also has operations in Germany and Ukraine, although insignificant to the company as a whole. The company's shares are traded on both London Stock Exchange and Moscow Interbank Currency Exchange. (LSR, 2011a; LSR, 2011b)

LSR Group's customers are primarily within the commercial and residential sectors. The activities the company engages in include: constructing, renovating, maintaining and renting commercial and residential real estate, manufacturing of building materials and construction services. The most important segment of the company in 2010 was the Real Estate Development segment, which provided a 41% share of the company's revenue, second largest being the Construction segment, generating 25% of the revenue. (LSR, 2011a)

The company consisted of six segments in the year 2010:

- Real Estate Development
- Commercial Real Estate
- Building Materials
- Aggregates
- Construction
- Construction Services

The company generated a 1 224 million € revenue in the 2010 with an operating profit of 154 million €. The LSR Group had 1 242 million euros of debt (loans and borrowings, accounts payable), 45% of which current, the amount of assets was 2 604 millions, 60% of which current. Shareholders' equity in the group was 1 297 million euros, only 0,07% of which in share capital in the year 2010. Most of the company's equity was in share premium (50%), most likely due to the owners' subordinate loans to the company. Retained earnings made up an 18% share of the company's equity. Information on personnel of the LSR Group was not available in its annual report or

website. The company started preparing financial statements according to IFRS in January 1, 2005. The currencies presented in the annual report of the LSR Group are Russian rouble and US dollar, Russian rouble being the primary reporting and functional currency of the company. All the conversions to euros in the analysis have been done according to the European Central Bank EUR/RUB exchange rate on December 31, 2010. (LSR, 2011a; LSR, 2011b)

4.4 Analysis

IFRS do not prescribe a comprehensive, standard layout or format for financial statements; they only define the bare minimum of what should be included in order to achieve a basic level of comparability among entities. Some of these basic requirements and all principles underlying financial statements are included in the Framework and IAS 1. However, the bare minimum is never sufficient in order to comply with the principles of IASB's Framework and the various standards and interpretations the entity is obliged to follow, thus leading to much more extensive reporting in practice. (Mirza et al., 2006, p.8-15; IAS 1)

The lack of an exhaustively standardised layout is self-evident in the case companies, as they differ in general presentation, account names and classifications. According to IAS 1 (Presentation of Financial Statements), additional line items may be needed to fairly present the entity's financial position. It is therefore only natural that the nomenclature of line items (or accounts) varies across the board between the companies, some being justifiable by a fairer view, yet some seem to be renamed for no apparent reason. The assets of the case companies, for example: LSR adheres to the names and classifications as mentioned in IAS 1 with only minor modifications, whereas many of YIT's asset accounts have been renamed. One line item, dubbed *property, plant and equipment* by the LSR Group and *tangible assets* by YIT, contains items as dictated by IAS 16 (Property, plants and equipment, PPE). (LSR, 2011a; YIT, 2011a)

Notes concerning PPE show that the only considerable difference in treatment between the companies is LSR's classification of *land and buildings* as a single subgroup. This synthesis is a peculiar one, as the company has stated in its accounting principles that buildings are depreciated but land is not. Land areas and buildings are not separated in depreciation and impairment calculations either; the sum is given as a single lump instead. YIT has a more consistent approach, as *land and water areas* and *buildings and structures* classified as separate groups. Otherwise there are no major differences in PPE between the companies, which raises questions whether there are any financial or fair-view grounds for YIT's decision to use the appellation *tangible assets* for PPE. (LSR, 2011a; YIT, 2011a)

Suggesting that some of the reasons behind differences in classifications and nomenclature might be due to the influence of national accounting standards and traditions would seem justifiable. This at least seems to be the case with the before mentioned *land and structures* and *tangible assets*, as Russian companies such as Aeroflot, X5 Retail Group and Baltika among others use the mentioned classification, whereas FAS dictate that Finnish companies should have land and structures separated, as is the case with YIT. The call sign for PPE used in FAS is *tangible assets*, which would support the theory of national influences in terminology. This terminological inconsistency is interesting, as YIT has at least partially changed its naming policy in favour of the IFRS, as the term *balance sheet* (as per FAS) in its annual report of 2009 was changed to *statement of financial position* in 2010. (LSR, 2011a; YIT, 2011a; YIT, 2010)

It can be argued that such small differences in nomenclature are very unlikely to have any considerable impact on the financial statements of the companies as a whole and are therefore of no relevance, yet they may cause brief moments of confusion. Reasons for the differences in nomenclature are most probably due to national influence. Many potential classification differences can not be verified with information publicly available, which makes the assessment of their possible impact purely speculative and unlikely, as both of the annual reports analysed have been reviewed by auditors, who have had access to information in excess of what has been published. (LSR, 2011a; YIT, 2011a; YIT, 2010)

IFRS 1 permits the continuation of previous goodwill accounting for old goodwill, which both of the case companies have done. LSR specifies goodwill accumulated from acquisitions before the implementation of IFRS as “the difference between the company’s interest in a subsidiary’s net identifiable assets on the date of transition and the cost of that interest”, this is due to the fact that goodwill is not recognized by Russian accounting law. YIT states that goodwill it has acquired before the transition to IFRS corresponds to the carrying value of prior financial statements. It is unclear whether the companies still have any goodwill from time before the implementation of IFRS, but it would probably be safe to say that possible differences resulting from old goodwill is of no real relevance and the impact on comparability is miniscule. Such presumptions may be done as even the total amount of goodwill accumulated in the companies was fairly small (106 million euros in LSR and 291 million in YIT at the beginning of financial year 2010). (Nobes, 2006, p.242; LSR, 2011a; YIT, 2011a)

The estimated useful lives of assets also differ between the two companies, ranging from a few years up to 20 years. YIT has a more comprehensive list of tangible assets depreciable consisting of seven classes, while LSR has only listed four classes that are depreciated. Framework of the IASB defines prudence as one of the key, requirements of financial information, which in effect means that reporters should exercise caution in making estimations. YIT would seem to follow the principle of prudence in its estimated useful lives based on the information of its annual report, as it has defined five of the seven asset classes to have a maximum useful life of 5 - 10 years. The remaining two asset classes are *buildings,* which are expected to have a useful life of 40 years, and *other property, plant and equipment* with a useful life of 10 - 40 years. The wide scope the *other PPE* group could be explained by a large variety of items within the class, yet there is no way of knowing the exact makeup of the class. The highest variance otherwise within a group is 5 years. (LSR, 2011a; YIT, 2011a; Haaramo & Räty, 2009, p.65)

LSR Group has a more problematic approach to the classification of assets depreciated, as each the useful lives within each group may vary substantially. The smallest variance within a group is in *transportation equipment*, where the lifespan of assets is 8 - 20 years. Largest variance between assets is in *buildings*, where useful lives vary from 20 to 50 years. Nobes (2006) suggests that as the definitions of useful lives are

based on appraisals within the company, they could be influenced by national traditions and legislation; tax accounting in particular. The companies' estimations on residual values are also likely to have some impact on the depreciation calculations, yet it's impossible to investigate this as neither one of the companies publishes them. All things considered, differences due to different useful lives and effects ensuing are most likely to have a fairly small impact on the case companies, as the grand total of depreciations of tangible assets only amounts to 57 million euros (LSR) and 24 million euros (YIT). (LSR, 2011a; YIT, 2011a; Nobes, 2006, p.241-242)

Both companies adhered to all current standards, as YIT had just adopted IFRIC 15 (Agreements for the Construction of Real Estate) for the 2010 financial year, whereas LSR had already implemented the interpretation a year earlier. This temporal difference in interpretation was due to the EU endorsement process, which was completed in July 2009 and dictated EU-companies apply IFRIC 15 beginning January 1st 2010, according to the EU Commission (2007), while the IASB's deadline for the adoption was a year earlier (IFRS Foundation, 2011). The late adoption of the interpretation had no impact for the financial year 2010 as YIT provided corrected opening balances, whereas the difference in assets of financial year 2009 was a notable 150,7 million euros. The sum represents 5,1% of the company's assets at the time. (LSR, 2011a; YIT, 2010; YIT, 2011a; EU Commission, 2007; IFRS Foundation, 2011)

The main change that IFRIC 15 bought was the return to the recognition of revenue in at a single time in construction of real estate, as opposed to the percentage of completion method used earlier. In contrast, the percentage of completion method has been implemented in Russia since January 1, 2009, according to Seppänen (2010). Even though the impact was small the case in question is a good example of possible temporal differences in IFRS statements due to asynchronous adoption of standards, as pointed out by Nobes (2006). (LSR, 2011a; YIT, 2010; YIT, 2011a; IFRS Foundation, 2011; Seppänen, 2010, p.20; Nobes, 2006, p.236)

It should also be noted, that as a whole YIT provides a considerable amount of information that is either not required by IFRS or exceeds those requirements in depth, whereas the LSR Group does not report much over the bare minimum. This difference can be observed e.g. in the company introductions, management report, de-

scriptions of accounting principles. YIT also provides such information as the number of employees and pre-computed financial ratios (gearing, return on equity, return on investment etc). There might be plenty of underlying reasons for the difference in amount of information provided, but it can be speculated that the ownership structure would explain the difference for the most part. LSR has a single owner with over 62% of shares, whereas YIT's ownership is much more dispersed, single largest owner having 11% of the shares. It can therefore be argued, that YIT provides more information because of more important investor relations than those of LSR. The difference might also be partly due to differences in national accounting law and tradition. Finnish principles and law on accounting as well as traditions set fairly broad requirements for annual reporting in a publicly listed company, the effects of which can be seen in the annual report of YIT (extensive information on the company itself as well as on its undertakings during the year). (LSR, 2011a; YIT, 2011a)

Many Russian companies seem to be chary in providing information in excess of minimum requirements; this can be observed in the financial statements of Russian companies such as Aeroflot, Alrosa, Baltika, Fesco, GUM, CenterTelecom and Rostelekom. The pattern of withholding information in Russian companies may be due to many reasons; transparency in general is not of the highest priority in Russian accounting as the national Law on Accounting only requires joint-stock companies to publish their financial statements (Smirnov, 2006). Another reason for the wary reporting of any information excess to the minimum requirements might also be explained by the requirement of form over substance which characterises the Russian accounting according to Seppänen (2010). As pointed out by Preobragenskaya and McGee (2003), Russian accounting is fairly young in its present form and many professional accountants have inherited the accounting mindset of the Soviet Union. (LSR, 2011a; YIT, 2011a; Smirnov, 2006; Preobragenskaya & McGee, 2003, p.12-13; Seppänen, 2010, p.18-21)

4.5 Results of the analysis

Providing a set of instructions for a single correct course of actions to devise identical financial statements internationally and universally would be impossible. Instead, IFRS provide a framework within which is possible to produce financial statements of high comparability, similarity and reliability; regardless of environment. This means that judgment and estimations play a crucial role within every entity when producing financial statements as per IFRS and differences are then bound to occur between companies. (Haaramo & Räty, 2009, p.85)

Making exact assessments of most of the differences proves to be hard, as they can't be indisputably computed using only public documents of the company. The only way to make any sense of the possible implications is to estimate their impact on the company as a whole if they were to exist. These speculative anomalies in the case companies could be suggested to be of very little relevance, as their impact would seem to be fairly small in comparison to the companies in their entirety. The fact that the annual reports in question have been reviewed by impartial auditors also makes the likelihood of such differences very small.

The most relevant differences observed between the two companies were those of goodwill and the useful lives of fixed assets. These differences remained only potential, as they could not be verified without information in excess of the case companies' annual reports. Nobes (2006) however suggests that there could be notable and long lasting differences because of estimation differences and the continuation of national practices for goodwill accounting. (Nobes, 2006, p.241-242)

Another notable difference between the companies' financial reports was the generosity of information, as YIT provided much more information. The reason behind the difference in the case companies could arguably be either due to national or ownership differences. One disparity in accounting treatments actually had manifested a year earlier, in financial year 2009. The difference was in adoption of IFRIC 15, which was already in force, but due to the EC's endorsement process it was not used by EU companies in financial year 2009. In its annual report of 2010 YIT had provided calculations on the impact of the difference, which proved to be fairly small. The case

of IFRIC 15 still served as a very good reminder of potentially remarkable differences that could result from the implementation of different versions of IFRS.

The financial statements also seem to provide satisfactory amounts of information in respect to the qualities required by IFRS. The level of comparability between the companies seems to be high, as there was very little disparity observed in the analysis. In light of the analysis it would not be an exaggeration to say that the companies are as almost comparable as two companies adhering to a single set of national standards would be. Many of the differences encountered could also be due to pure coincidence.

Summa summarum, even as the case companies, LSR Group and YIT Group, had differences in their IFRS reports they seem to have applied IFRS in an analogous manner. Judging from an outside/investor point-of-view, both companies have independently produced financial statements that seem very consistent in methodology, structure and objectives by following the framework that is IFRS. Peer-revision of the financial statements by independent auditors strengthens the credibility of such a conclusion. It would therefore seem appropriate to deduce that the accounting treatments used by the companies seem to coincide and correspond to those intended by the IASB with little relevant disparities, most of which could have also resulted as in a national context or due to coincidence.

5 CONCLUSIONS

The methodology and principles behind the preparation of financial statements is indisputably dependent on the country of origin of the reporter. The resulting differences are usually so remarkable, that comparison between entities of different origin may be very difficult, provided that they have produced their financial statements in accordance to national standards. National standards and practices on accounting vary for many reasons, some of which may be due to different business environments, legislation, traditions and accounting principles. The result is a multitude of ways to generate financial statements. The growing globalisation and complicity of the business world has brought companies from different countries closer together, as international investments, acquisitions and mergers have become ever more common practices. This has also added to the requirements on information of companies, which is the main reason for the need of international standardisation. International Financial Reporting Standards have risen to the challenge, as the use of IFRS in the preparation of financial statements is now required or allowed in many countries across the globe. Widespread implementation of the standards is expected to ease the problem by providing more reliable and comparable financial information, which in turn should positively affect market liquidity. (Jermakowicz & Gornik-Tomaszewski, 2006, p.171; Kallunki et al., 2008, p.15)

Finland and Russia are no exception: in spite of the close cultural and historical ties that the countries have and the sharing of several fundamental principles in accounting, copious fundamental differences remain that make the comparison of financial statements (prepared in accordance to national standards) very difficult. The differences between the two countries are a result of a myriad of things, originating from differences in business environment, culture, traditions and legislation among many other things. Many of these differences in financial statements as per RAS/FAS are easily observable, yet some are due to methodological differences and thus more difficult to observe and take into account when making comparisons.

EU harmonisation efforts have streamlined the principles of FAS with those of the IFRS, while current Russian accounting legislation is actually based on IFRS. Many Russian publicly traded companies have voluntarily adopted IFRS, while Finnish listed companies have been obliged to comply with IFRS since 2005. The comparability of financial statements produced Russian and Finnish companies has then hypothetically changed to the better. Nobes (2006) however suggests that IFRS statements may be influenced by national accounting practices in a number of ways. (Leppiniemi, 2003, p.31-32; Matilainen, 2006, p.33-34; Nobes, 2006, p.233-245)

There is no single correct way of implementing IFRS as they are principle-based in order to be functional internationally, as environments and companies vary significantly. Estimations, options, methodology and interpretations in the preparation of IFRS reports may then be affected by national factors, which in turn may cause anomalies between companies originating from different countries. These differences were investigated in the case analysis, which did show signs of different implementations due to national factors.

Following differences were observed in the case analysis between YIT Group Oyj and OAO LSR Group:

- Useful lives of fixed assets
- Implementation of IFRIC 15 (financial year 2009)
- Differences in nomenclature
- Amount of information beyond the required minimum in general

Most of the observed differences were qualitative: the financial statements had plenty of differences in call signs used and there was a consistent difference in the amount of information provided. Both of the companies diverged from nomenclature used in IFRS. Reasons for the differences in naming policy that the companies had adopted are likely to be due to national factors, yet there seem to be no differences that would affect comparability of the reports. The amount of extra information provided by the companies also differed, as YIT provided more information and explanations than LSR. This was probably due to difference in importance of investor relations between the companies.

Another potential disparity that could prove to be problematic is the country-dependent simultaneous implementation of “different versions” of IFRS. An example of such situation could be observed in the adoption of IFRIC 15, which manifested in differences during financial year 2009. Reason behind the coincident use of dissimilar versions of IFRS was due to the endorsement process of the EC. The IASB had set the financial year 2009 as a deadline for the adoption of IFRIC 15, whereas the EC authorised its use in the EU from the beginning of year 2010, making the difference temporal in nature. Although there were no major implications in the companies, the case served as a good exhibit of possible negative impacts that the EC endorsement process or different versions of IFRS could hold.

Other differences between the companies remain speculative, as their existence could not be established with the information made available to the public. Even the existence of the differences seems fairly unlikely, as both of the reports in the analysis have been audited. Presuming that such differences would exist, it would be unlikely that their impact on the companies would be very high.

The case companies have produced financial statements of seemingly high comparability, according to the analysis. The relevance and impact of most of the disparities observed or speculated ranged from non-existent to small. Many of the differences could also have manifested in a national setting or due to pure coincidence. Considering the results of the analysis it could then be argued, that differences having a major impact in comparability between audited financial statements would most likely have to be due to intended and systemic distortion of financial data or due to different versions of IFRS used. There is little evidence of the occurrence intended falsification in IFRS statements that would have lead to major bankruptcies, yet the possibility does exist even as there has been development on auditing, accounting and reporting since the time of Enron’s downfall 10 years ago. Such tort cannot be directly attributed to any single factor and “bad apples” tend to surface in spite of all precautions and might be very difficult to observe. (Dewing & Russell, 2004, p.313-314)

Nobes (2006) and Alali & Cao (2010) have referred to problems that could be caused by different versions of IFRS. The different versions of IFRS can be either temporal (e.g. early adoption, EC endorsement process) or constant. Both Russia and the EU

now require new standards to be first reviewed before implementation, which might prove to be problematic in the future. In effect, they reserve the right not to implement standards, should they be incompatible or disadvantageous to their interests. So far the endorsement process of the EC has been a mere formality, although it has already proven that such clauses may cause temporal version differences in IFRS statements. The danger is that it could result in the emergence of constant differences in IFRS implementations; “EU IFRS” or “Russian IFRS”, should the parties in question ever decide not to implement a standard. It can be speculated, that the reason for the endorsement process is actually political as the parties might wish to have leverage in “IFRS politics”. (Alali & Cao, 2010, p.81, 84; Nobes, 2006, p.236-237)

In the end, the level of comparability and reliability of international financial statements depends on numerous factors. IFRS financial statements seem to provide a satisfactory level of comparability, in spite of the inevitable small differences in implementation, which mostly prove to be of little relevance when considering the big picture. The quality and accuracy of structural factors such as auditing and corporate governance play a role at least as major as the accounting standards employed. The integrity and skill of the accountant and company management are also of paramount importance when considering factors affecting quality of financial statements. Most differences in IFRS statements don’t seem to be intentional; they seem to be related to national legislation and taxation instead. The main source of possible systemic differences in IFRS financial statements is the possible simultaneous implementation of different versions of IFRS.

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