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The role and current status of IFRS in the completion of national accounting rules. Evidence from Denmark

Frank Thinggaard, Aarhus University, Department of Economics and Business Economics

Fuglesangs Allé 4, Bldg. 2632, 210, DK-8210 Aarhus V, Denmark

fth@econ.au.dk

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Abstract

I analyse the influence of IFRS on the Danish accounting regulation based on the EU Accounting Directive. In Denmark, the EU Accounting Directive is brought into force through the Danish Financial Statements Act. The analysis shows that the provisions in the Act are aligned with the IFRS to a great extent. It also shows that the Danish legislators extensively refer to IFRS and that they consider the IFRS to be the source to use for completing the national rules. I additionally show that the enforcers of the Danish Financial Statements Act look to the IFRS for guidance when they interpret the provisions, and that many important stakeholders have a positive attitude towards the use of IFRS for non-listed companies. The conclusion is that IFRS standards play a decisive role and have strong legitimacy in Denmark.

Keywords: IFRS, EU Accounting Directive 2013/34/EU, Harmonization, Denmark

Documents internalising the Accounting Directive

In Denmark the EU Accounting Directive is transposed into one Act, the Danish Financial Statements Act (the “Aarsregnskabsloven”) that is passed by the Danish Parliament and encompasses all rules from the Directive. However, the Act makes it possible to delegate legislative power to the Danish Business Authority (“Erhvervsstyrelsen”) within defined areas.¹ The Business Authority will then issue a statutory order (decree) which is binding for citizens and hence functions in the same way as a rule of the Act (Blume, 2011, p. 46). The Financial Statements Act § 136 opens for the establishment of a Danish standard-setting organisation under the auspices of the Danish Business Authority, which - “to the extent necessary” - can complete and complement the Act. To date, this option has, however, not been exercised.²

The Danish Financial Statements Act is structured as a building block system in accordance with the “think small first” philosophy. This means that the Act starts by listing the paragraphs that are relevant for small companies. The principle is that small companies are only required to meet relatively few, general rules. Then follow additional requirements for medium sized and large companies, which again are followed by additional requirements for listed and state-owned companies. The advantage is that preparers of financial reports only have to familiarize themselves with the specific part of the Act which applies to them, and this is done in a structured way by reading the Act from the beginning until the end of the relevant accounting class. However, the Act allows companies to apply some or all rules from a “higher” accounting class if they wish to do so, provided that this is done in a systematic and consistent way (Danish Financial Statements Act § 7.5). Denmark has a long tradition of exploiting the Directive’s size limits for small, medium and large entities to the maximum.³

The Financial Statements Act § 137 implements the options in Article 5 of Regulation (EC) No 1606/2002 on the application of international accounting standards in the following way: the Act permits listed companies to prepare their annual accounts and non-listed companies to prepare their consolidated and/or their annual accounts in conformity with the EU adopted IFRS. If a listed company does not prepare consolidated accounts, then the annual accounts have to be prepared in conformity with the EU adopted IFRS. This is a very open and flexible implementation and clearly shows the positive attitude of the Danish Parliament towards the IFRS system.

The legislative system: How the Accounting Directive is internalised in national regulations

When a major change in the Financial Statements Act is necessary – for instance due to changes in the Accounting Directive - a thorough process is initiated. The Danish Business Authority is active in the preparation of new legislation. Before drafting the amendments to the Act, the Danish Business Authority consults with an advisory body (the “Regnskabsrådet”). The advisory body consists of representatives from commerce and industry organisations, public authorities (e.g. taxing authorities) and academia. When the changes caused by the 2013 EU Accounting Directive were discussed, the Business Authority also initiated a number of additional outreach activities. For instance, they conducted a survey among potential users of financial statements from smaller entities about the value and use of information in the financial report. The aim was to establish a well-documented basis for the assessment of the available relaxation options in the Directive (Damvad, 2014). Moreover, a draft bill was sent out to a large number of interest groups for

comments before the proposal was finalised and introduced to the Danish Parliament. Finally, the Parliament itself conducted further inquiries by inviting representatives from business entities, commerce and industry organisations as well as academia to a public, TV transmitted hearing in the Parliament.⁴

The draft bill that is formally introduced to Parliament contains both the legislators' general remarks to the bill and specific remarks to each of the proposed paragraphs (i.e. "basis for conclusions").⁵ Here, the reflections, intentions and opinions of the legislators are revealed. According to Danish legal method this is an important source for the interpretation of current law (Blume, 2011). Relevant statutory rules are always used as the primary basis for legal decisions and are thus the most important legal source in Danish law, but preparatory material in relation to existing legislation is generally also considered a legal source, albeit secondary, and the remarks are therefore crucial as they outline the way in which the various rules should be interpreted and hence how they ought to be applied (Blume, 2011, p. 34). Blume, 2011 mentions that one advantage of using the preparatory remarks as a legal source is that the paragraphs in the law can be shorter and hence will more likely be easier to understand since it is unnecessary to include every detail in the rules.

References to IFRS in the Danish legislators' remarks to the Danish Financial Statements Acts draft

The remarks to the paragraphs in the draft (Folketinget, 2015) include a total of 292 references to IFRS and IAS. 202 of the remarks are related to specific IAS/IFRS standards and 90 are references to IFRS/IASB in a more generic sense. The sheer amount of references to IFRS/IAS indicates that the Danish legislators view the international accounting standards as a very significant source in the interpretation of the national accounting rules.

The Danish Financial Statement Act § 11.3 contains the "true and fair" override provision from the EU Accounting Directive Article 4.4. The remarks to this paragraph reveal a great deal about Denmark's position on IFRS and how Denmark considers the role and status of the international standards in the interpretation of the Act. First of all it is noted that "it is unlikely that disapplication of specific provisions in the law can be made if companies make other choices for recognition and measurement than those permitted under IFRS. The reason is that the law is based on the same fundamental framework as the IFRS. Considerable resources are spent on continuous development of IFRS including a global dialogue with companies, financial statement users, authorities and auditors. It is consequently very unlikely that a company has such a special situation that this has not been taken into account by the IFRS....The IFRS contain a large number of detailed provisions which are developed and changed more frequently than the Financial Statements Act. Consequently there will be cases where the IFRS will take account of new situations – for example the consequences of a financial crisis – before the Act. In these cases it can be relevant for companies to derogate from the Act and apply a specific methodology from the IFRS....However, if a specific provision in an IFRS was adopted at the time when the Financial Statements Act adopted a different provision for a similar transaction, then the provision in the Act cannot be disappplied by arguing that the IFRS rules give a more true and fair view. Here the legislators have specifically decided to implement a regulation which deviates from the IFRS regulation of the similar transaction." (Remarks to draft bill, Folketinget, 2015, paragraph 11.3)

This means that Danish companies must know whether or not a difference between a provision in the Financial Statements Act and IFRS existed or was established at the time when the Act was adopted. If this is the case, then no “true and fair override” is allowed. However, if the difference occurs because the IFRS rules have progressed and come up with a new solution in response to “new situations”, then the remarks state that it may be relevant to derogate from the provisions in the Financial Statements Act and follow the IFRS solution in order to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Despite the fact that it is unclear what it meant by “new situations,” this clearly shows that Danish legislators consider the IFRS to be *the* source to use for completing the rules in the Danish Financial Statements Act, and that they may even accept disapplication of specific rules in the Act if the IFRS have come up with new solutions.

The remarks continue: “To a large extent, the IFRS can be used to make complete the statutory framework. § 38 in the Financial Statements Act, for example, includes an option to measure investment property at fair value. The provision is just an outline, which is completed by the definition of investment property, classification in and out of the investment property category etc. by IAS 40. IFRS 13 contains detailed provisions about the calculation of fair values. IAS 40 and IFRS 13 will be changed as new and better methods for calculating fair values for investment properties are being developed. When new standards are issued, they will complete the outline in the Act. Thus, a company that prepares its annual accounts in accordance with the Financial Statements Act is free to use the most recent IFRS as part of the legal framework. This does, however, presuppose that the required standard is not at variance with the wording of the Act. A standard that previously required measurement at cost, but in the future requires measurement at fair value can only be used if the Act allows the use of fair values.” (Remarks to draft bill, Folketinget, 2015, paragraph 11.3).

This system is what the legislators call “dynamic interpretation.” If a new IFRS does not conflict with a specific provision in the Act, then the IFRS can be applied. The new IFRS may even be relevant if it conflicts with a specific provision provided that the IFRS has been issued in response to a “new situation” and that it can be argued that it is necessary to disapply the provision in the Act and follow the IFRS solution in order to give a true and fair view.

The Financial Statements Act contains a new provision in § 137a, which was adopted when the law was revised in order to comply with the EU 2013 Directive. The paragraph states that “The Danish Business Authority can issue regulations that specify that certain provisions in this Act may be derogated from when this is deemed necessary in order to make use of international accounting standards that are specially adapted to the needs of small and medium sized entities.” The remarks to § 137a state that: “...[full] IFRS are of high quality and they are globally the most widely recognised set of rules for financial reports. However, the high informational value of the financial reports that are based on [full] IFRS comes at the cost of high burdens on the companies. Especially the compliance with the extensive disclosure requirements is very resource demanding for the companies... The use of [full] IFRS is thus not a real alternative to the Financial Statements Act for most Danish companies...A number of Danish stakeholders have called for the option to apply IFRS for SMEs in Denmark. Prior to exercising its proposed authority [in § 137a] the Business Authority will investigate the specific need for the application of the accounting standard. If there is a widespread demand for the application of the accounting standard, the Business Authority will initiate an analysis of the difference between the Financial Statements Act and IFRS for SMEs

in order to establish the exact provisions in the Act that companies should be able to disapply if they choose to follow IFRS for SMEs. Since both the Financial Statements Act and IFRS for SMEs are based on the [full] international accounting standards, the assessment is that there will be a limited number of differences...It is, of course, only possible to establish derogations that are within the limits of the new Accounting Directive.” (Remarks to draft bill, Folketinget, 2015, paragraph 137a). This is another example of the positive attitude towards IFRS held by Danish legislators. The aim is to align the provisions in the Financial Statements Act with those of the IFRS by giving Danish companies the option to directly apply the regulations in IFRS for SMEs if the provisions are not at odds with the Directive. However, whether the Business Authority will exercise the right to issue a decree depends on the results of a possible analysis.

The distribution of the references related to specific IAS/IFRS standards is reported in table 1.

< Please insert Table 1 here: Distribution of references to specific IAS/IFRS standards in the Danish draft bill incorporating the EU 2013 Accounting Directive>

Table 1 clearly shows that legislators refer extensively to the international accounting standards in relation to business combinations (IFRS 3 and IAS 22). One reason for the large number of references to IFRS 3 can be found in the remarks to the draft bill (Folketinget, 2015, p. 59). The remarks mention that the previous Danish Financial Statements Act did not include any specific regulation about business combinations in situations that did not result in a parent-subsidiary relationship. The new Financial Statements Act corrects this and draws on IFRS 3 in this process. Moreover, a number of rules and interpretations in the previous Financial Statement Act are aligned with IFRS 3, for instance the issue of reverse acquisitions, the recognition of restructuring costs in the acquired company, the recognition of negative goodwill etc.

Fair value measurements (IFRS 13), intangible assets (IAS 38), financial instruments (IAS 39, IFRS 9 and IFRS 7), presentation issues (IAS 1) and income taxes (IAS 12) are additional areas where the legislators extensively refer to IFRS.

Many of the references to the specific IFRS are direct instructions to use IFRS as a basis for interpretation of the provisions in the Act or they are used to justify a choice in the Act. Examples are: “...Here, it will be natural to apply the provisions in the international accounting standard IAS 32 in order to determine whether the item is a liability or equity...” “...The calculation of deferred taxes is in general made in accordance with the methods described in the international accounting standard IAS 12...” “...It is also proposed that the Danish definition of a development project follows international standard IAS 38...” “...It is also not possible to classify items as extraordinary in IAS 1 paragraph 87...” “... The proposal aligns the provisions with IAS 38, paragraph 63, which specifically mentions that companies cannot recognise internally generated brands and similar assets in the balance sheet...” (Remarks to draft bill, 2015, various provisions).

Some standards are not mentioned in table 1, for instance IFRS 2. The Danish Financial Statements Act does not have any specific paragraphs about the recognition and measurement of share based payments. It is generally acknowledged that the rules and regulations in IFRS 2 can be applied. This is, however, not

mandatory, and the remarks to the draft bill consequently do not make any references to IFRS 2. Thus, missing references to specific IFRS standards in the remarks to the draft bill do not necessarily imply that these standards are irrelevant in the determination of generally accepted accounting practice in Denmark.

References to IFRS by enforcement bodies

The enforcement body for non-listed companies in Denmark is The Danish Business Authority. Each year it selects a number of financial reports for scrutiny. The sampling is done both randomly and based on other criteria (Financial Statements Act § 159.1 and § 159.2).

The current enforcement body for listed companies is The Danish Financial Services Authority (Danish FSA - Finanstilsynet). But in cases that involve listed non-financial companies the Business Authority assumes the role of the FSA (Danish Securities Trading Act § 83.2 and Financial Statements Act § 159a.1).

Specific decisions in relation to the scrutiny of financial reports from non-listed companies are generally not publicly available. However, essential and/or principal decisions involving listed companies are published on the website of the Danish FSA. Most of the published cases involve financial reports based on IFRS. However, a few cases are from the financial year 2004, i.e., before the mandatory application of IFRS in the consolidated financial statements. By analysing these cases we can get an indication of the role and status that the enforcement body assigns to the IFRS.

Case 1: In accordance with an option in the Danish Financial Statements Act, a company uses the revaluation model for a portfolio of property. However, in the year of disposal, the profit is calculated as the sales price less the cost price, i.e. excluding the revaluations which should have been included. The company argues that this is necessary in order to give a true and fair view. The Business Authority decides that this is not a special case that justifies a true and fair override. One of their arguments is that: "The procedure is not in accordance with the international accounting standards (IAS/IFRS)."

Case 2: A company buys flats which are then to be sold when they have been vacated by the tenants and the company management finds such sale appropriate. In the financial year only few flats were sold relative to the total portfolio. The company has recognised the flats as current assets. The Business Authority decides that the company must recognise the flats as tangible fixed assets or investment property until the tenants have vacated the flat and no further obligations to tenants exist. They argue that: "The international accounting standard (IAS) 1 paragraphs 51 to 59 can be used as a basis for interpretation [of the definition of fixed and current assets in the Financial Statements Act] when it is to be decided whether assets are intended for continued use in the undertaking's activities."

Case 3: A company has experienced a number of financial years with losses or net profits close to zero. The company has announced that it expects large growth and positive net profits in the future. However, historically the financial outcomes have deviated significantly from the forecasts. The amount recognised as deferred tax assets has increased year by year and now totals 20% of revenues and 26% of owners' equity. The primary source is deductible tax losses. The Business Authority decides that "...according to the provisions in the Financial Statements Act and in IAS 12 the company did not produce convincing

documentation to make probable that it will be likely for the company to generate enough future taxable profits so that the recognised deferred tax assets ...can be utilised.”

The cases provide evidence of early adoption of IAS standards by enforcement bodies. It underlines the basic view in Denmark that IAS standards are the place to look for authoritative guidance when the provisions in the national legislation are to be interpreted and completed. This basic view pervades the Danish implementation of the Accounting Directive.

As mentioned above the Danish Business Authority generally does not inform the public about specific decisions in relation to the scrutiny of financial reports from non-listed companies. However, the Business Authority has made exceptions in a few high-profile cases that have been in the media. One recent case from May 2016 involving a lamp company (Hesalight) gives additional insights into the role of IFRS in the enforcement of the Danish Financial Statements Act. The lamp company had used the percentage of completion method on its contracts for the delivery of (standard) street lamps and the core of the dispute between the company and the Business Authority was whether or not this method was appropriate and, if so, how this method should be applied. Interestingly, the company (through its auditor) was the first to refer to IAS 11 as a justification for the accounting practice chosen. The Business Authority followed suit and continued to use IAS 11 in its decision that the company did not meet the requirements for using the percentage of completion method (Erhvervsstyrelsen, 2016). This and other recent cases illustrate that IFRS standards have become a natural common language in the discussion of accounting matters in Denmark.

Stakeholders' position on IFRS

The remarks to the draft bill include the following observation: “For several years, many stakeholders have called for an international alignment of the [Financial Statements] Act, because the international accounting standards have undergone a development which is not reflected in the Financial Statements Act...There have been different views on the proposed relaxation options in [the Business Authority's advisory body] Regnskabsrådet, but there has been broad support for the alignment with the international accounting standards.” (Remarks to draft bill, Folketinget, 2015, p. 28).

29 organisations prepared comment letters to the draft bill during the consultation phase (Erhvervs-, Vækst- og Eksportudvalget, 2015).⁶ Eight of the comment letters only stated that the organisation in question did not have any comments. Ten comment letters only dealt with the implementation of new CSR disclosures in accordance with Directive 2014/95/EU. Eleven letters commented on the other rules in the draft bill. Four of the eleven included specific comments on the issue of aligning the Financial Statements Act with IFRS.

The Danish Chamber of Commerce (“Dansk Erhverv”) ⁷ stated the following: “The Danish Chamber of Commerce welcomes... an alignment of the Danish legislation with international standards so that special legislation is avoided to the extent possible. An alignment of the Danish Financial Statements Act with the international accounting standards will make financial reporting significantly easier for the companies that report according to IFRS.”

The Confederation of Danish Industry (“DI”)⁸ stated the following: “DI supports the goal of an international alignment of the principles for recognition and measurement in the Financial Statements Act with respect to the companies that have to report solely according to the Financial Statements Act. For the companies where the parent company prepares consolidated financial statements in accordance with IFRS, it is an advantage to have as few items to reconcile as possible. A harmonisation must, on the other hand, not create unnecessary administrative burdens for larger entities that solely prepare financial statements in accordance with the Financial Statements Act. DI would like to acknowledge the work initiated by the Danish Business Authority in relation to a review of the detailed provisions within the specific areas. DI finds that the balance has been generally obtained in the draft bill in this respect. ...Finally, it has been proposed that Danish companies can voluntarily prepare financial statements in accordance with the IFRS for SMEs, a suggestion that DI considers a very positive option. Even today, there are countries, in particular outside the EU, where this standard can be applied.”

The Danish Bankers Association⁹ stated the following: “As regards...” Alignment with IFRS – recognition and measurement” it is the Danish Bankers Association’s understanding that the goal is to give companies the option to recognise and measure according to principles that are in accordance with IFRS to the degree possible....As regards subsidiaries in international groups and other internationally oriented firms, for example, this could give real reductions in burdens and this does not seem to imply a reduction in the information content of the financial reports. The Danish Bankers Association thus supports the proposed change that gives companies the option to apply rules that are consistent with IFRS.”

Finally, the Danish organisation of approved auditors has expressed a positive attitude towards IFRS on several occasions. This support was evident in their hearing statement that read: “We are...generally very positive with respect to the parts of the draft bill that entail an alignment of the Financial Statements Act with the international accounting standards (IFRS and IAS).”

No comment letters were received which contained negative remarks about the alignment of the Danish Financial Statements Act with IFRS.

Overall it can be induced that many important stakeholders have a positive position on the use of IFRS for non-listed companies.

Examples of major differences between provisions in the Danish Financial Statements Act and IFRS

A comparison of the provisions in the Act and the full IFRS reveals only few differences. Table 2 gives an overview of the most important differences. There are a number of exemptions available to micro, small and medium sized companies, which – if they are applied – create additional differences to the full IFRS. A small company, for instance, is not required to prepare a cash flow statement or a statement of changes in equity, and a micro entity is, for instance, not required to disclose their accounting policies. However, as mentioned above, the Act allows companies to apply some or all rules from a “higher” accounting class if they wish to do so and provided that this is done in a systematic and consistent way (Danish Financial Statements Act § 7.5). The reported differences are the most significant ones found in the highest accounting class.

The short list of differences, the fact that most of them are due to restrictions in the Accounting Directive and that the differences related to financial instruments can be avoided by using the option of applying the relevant international accounting standard instead of the Act are all clear indications of the Danish legislators' dedication to the IFRS.

< Please insert table 2 here: Table 2: Major differences between the Danish Financial Statements Act and IFRS>

Conclusion – Denmark

The following can be induced from the analysis:

Danish legislators consider the IFRS to be *the* source to use for completing the rules in the Danish Financial Statements Act. First of all, they have aligned the provisions in the Act with IFRS to a great extent. Few major differences exist. Secondly, they have introduced a system which has been called “dynamic interpretation.” If a new IFRS is not in conflict with a specific provision in the Act, then the IFRS can be applied. The new IFRS may even be relevant if it conflicts with a specific provision, provided that the IFRS is issued in response to a “new situation” and that it can be argued that it is necessary to derogate from the provision in the Act and follow the IFRS solution in order to give a true and fair view. Thirdly, the Act gives companies the option to apply full IFRS for financial instruments. Fourthly, the Danish Business Authority can issue regulations that specify that certain provisions in the Act may be derogated from when this is necessary in order to apply international accounting standards that are specially adapted to the needs of small and medium sized entities.

The enforcers of the Danish Financial Statements Act look to the IFRS for guidance when the provisions in the Act are interpreted and completed.

Many important stakeholders have expressed a positive attitude towards the use of IFRS for non-listed companies.

All in all, it is evident that the Danish position on the IFRS is very positive and that the IFRS standards are used as a very important point of reference and as a source of interpretation in relation to Danish national accounting rules based on the EU Accounting Directive.

¹ The Danish Business Authority is an agency under the Ministry of Business entrusted with certain dedicated and administrative tasks. The Danish Business Authority's mission is to make it easy and attractive to establish and conduct business activities throughout Denmark. One important task is to participate in the legislative process and prepare draft legislation within the business area. Another is to be involved in the governmental supervision and enforcement of regulations within the business area.

² The Danish organisation of approved auditors (“FSR – Danske Revisorer”) has issued accounting standards for small and medium sized entities. However, no legislative power has been delegated to the organisation, and the accounting standards hence have no formal status.

³ The classification is based on an entity not exceeding two out of three of the following thresholds in two consecutive financial years (total assets/net revenue/number of employees): Micro (3.6/7.2/10), Small (5.9/11.9/50) and Medium (20.8/41.7/250). Total assets and net revenue in million Euros, converted from DKK to Euros using an exchange rate of 7.5 DKK/Euro.

⁴ The TV transmitted hearing can be seen here: <http://www.ft.dk/webtv/video/20131/eru/tv.2670.aspx?from=10-04-2015&to=10-04-2015&selectedMeetingType=&committee=-1&as=1#player>.

⁵ The draft bill with the legislators’ remarks is available here: http://www.ft.dk/Rlpdf/samling/20141/lovforslag/L117/20141_L117_som_fremsat.pdf.

⁶ The comment letters can be found here: <http://www.ft.dk/samling/20141/lovforslag/l117/bilag/1/1490262.pdf>

⁷ The Danish Chamber of Commerce (“Dansk Erhverv”) is a business organisation and employers' association representing 17,000 companies and 100 trade organisations within commerce and other areas.

⁸ DI is a trade organisation and an employers' association that represents 10,000 member companies.

⁹ The Danish Bankers Association is a professional organisation representing the banks in Denmark.

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Table 1: Distribution of references to specific IAS/IFRS standards in the Danish draft bill incorporating the EU 2013 Accounting Directive

IAS/IFRS standard	Number of references
IAS 1	14
IAS 2	4
IAS 8	10
IAS 10	4
IAS 12	13
IAS 16	10
IAS 19	7
IAS 22	4
IAS 24	3
IAS 28	4
IAS 32	1
IAS 36	2
IAS 37	10
IAS 38	14
IAS 39	3
IAS 40	6
IAS 41	3
IFRS 3	42
IFRS 5	2
IFRS 7	4
IFRS 8	4
IFRS 9	11
IFRS 10	6
IFRS 11	6
IFRS 13	15
Total	202

Table 2: Major differences between the Danish Financial Statements Act and IFRS			
Description	IFRS	Danish Financial Statements Act	Comments
Presentation of financial statements: IFRS: A complete set of financial statements comprises (among others) a statement of other comprehensive income and a cash flow statement. Danish Fin. Statements Act (DFSAs): No statement of other comprehensive income. A parent company and its subsidiaries are exempt from preparing cash flow statements if those statements are included in a cash flow statement of a larger body.	IAS 1.10 + 1.10A	§ 78, §49.2 and annex showing the layout of the financial statements, § 86.4	
Goodwill: IFRS: Goodwill is an intangible asset with an indefinite useful life and shall not be amortised. DFSAs: Goodwill shall be amortised over its useful life. If an entity is unable to make a reliable estimate of the useful life for goodwill in exceptional cases, the life shall be presumed to be ten years.	IFRS3.B63a IAS38.107	§ 43.1, 43.3 122.3	The difference cannot be avoided due to the Accounting Directive article 12.11. The procedure in the Act is in accordance with IFRS SME 19.23
Development cost: IFRS: Development cost shall be amortised over its useful life. However, if the useful life is regarded as indefinite, the cost shall not be amortised. DFSAs: Development cost shall be amortised over its useful life. If an entity is unable to make a reliable estimate of the useful life for development cost in exceptional cases, the life shall be presumed to be ten years.	IAS 38.88, IAS 38.97, IAS 38.107	§ 43.1, 43.3	The difference cannot be avoided due to the Accounting Directive article 12.11. The procedure in the Act is in accordance with IFRS SME 18.19 and 18.20
Other intangible assets with indefinite useful lives: IFRS: If the useful life is regarded as indefinite, the assets shall not be amortised. DFSAs: Intangible assets other than goodwill and development cost shall always be amortised over their useful lives.	IAS 38.107	§ 43.1	The difference cannot be avoided due to the Accounting Directive article 12.11.
Financial instruments and hedging: IFRS: Classifies financial assets into four categories, one of which is available-for-sale-financial assets. Gains or losses in this category are recognised in other comprehensive income. Embedded derivatives shall be separated from the host contract. Fair value option can be used under certain circumstances. “Tainting rule” in the held-to-maturity category if sales or reclassifications	IAS 39.9, IAS 39.45, IAS 39.11 IAS 39.88, IAS 39.98	§ 37, § 37a, § 49.2	Denmark has implemented the option in the Accounting Directive article 8.6 which permits the recognition, measurement and disclosure of financial instruments in conformity with international accounting standards

Table 2: Major differences between the Danish Financial Statements Act and IFRS			
Description	IFRS	Danish Financial Statements Act	Comments
<p>occur. Very detailed and strict hedge accounting criteria. Hedge of forecast transaction: Choice between basis adjustment or reclassification directly to income only applies when the forecast transaction results in a non-financial asset or non-financial liability.</p> <p>DFSA: No available-for-sale category. No requirement to separate embedded derivatives from host contract. No fair value option. No “tainting rule.” Less detailed and strict hedge accounting criteria. Hedge of forecast transaction: Choice between basis adjustment or not also applies to financial assets and liabilities.</p>			adopted in accordance with Regulation (EC) No 1606/2002
<p>Application of the equity method:</p> <p>IFRS: Amortisation of goodwill is not permitted. Not required to build a revaluation reserve in case the profit attributable to the participating interest and recognised in the profit and loss account exceeds the amount of dividends already received.</p> <p>DFSA: Goodwill shall be amortised over its useful life. If an entity is unable to make a reliable estimate of the useful life for goodwill in exceptional cases, the life shall be presumed to be ten years. Required to build a revaluation reserve in case the profit attributable to the participating interest and recognised in the profit and loss account exceeds the amount of dividends already received.</p>	IAS 28.32, IAS 28.10	§ 43.1, 43.3, 43a.5 122.3	The differences cannot be avoided due to the Accounting Directive articles 9.7c and 12.11
<p>Presentation currency:</p> <p>IFRS: An entity may present its financial statements in any currency (or currencies).</p> <p>DFSA: Recognition, measurement <i>and presentation</i> of monetary items must be made in DKK, Euro or another currency which is relevant to the company or the group.</p>	IAS 21.38	§ 16	