

EDITORIAL

We live in a time of financial turmoil that bodes extensive structural changes. The financial crisis led, through several channels, to a sharp fall in private spending (Krugman, January 6, 2013). The financial crisis is worsened by underlying structural imperfections such as an uneven distribution of competitiveness between countries and regions, and, in some countries, the profits have surged as a share of national income, while wages and other labor compensation are down. In addition, territorial disputes, for example, in the South China Sea but also in the East China Sea, are a potential threat not just to the immediate region, but to the entire world. Hence, we live in an era that faces huge problems and great opportunities. And this holds for accounting as well.

The title of this textbook is *IFRS Accounting in Progress – from a student perspective*. Master students present their articulated views and understanding of IASB as an accounting rule-maker and of the current accounting standards in progress, given the particulars of the present time. First, this editorial will dwell on some of the observations made about student-centered learning (SCL) during a masters-level course in advanced accounting. SCL is an approach to teaching that focuses on the needs of students rather than those of lecturers and educational administrators. Thereafter, the editorial will briefly reflect on the urgent need for new theories within the field of accounting. Thence, heuristics or experience-based techniques for making accounting judgments and learning will be discussed. Finally, the structure and the different chapters of this textbook will be presented in brief.

In the literature there are different definitions of SCL, partly because they take different perspectives such as a cognitive view or a social constructivist view, or they take a more practical orientation (O'Neill and McMahon, 2005). The present textbook takes a broad view of SCL, which is considered to include aspects of choice, of doing, and of power. Lecturer-centered learning (LCL) and SCL are seen as the two ends of a continuum, using these aspects of choice, doing and power: low level of student choice versus high level of student choice, passive student versus active student, and power resting primarily with the lecturer versus power resting primarily with the student. It is important to point out, however, that the lecturer has the sole responsibility for defining and upholding the academic requirements of the curriculum. Furthermore, it is important to realize that the two orientations do not exclude each other, but are instead complementary. Lea et al. (2003, p. 322) summarize some of the literature on SCL, including the following aspects, which are also in line with this textbook's view:

1. A reliance on active rather than passive learning,
2. An emphasis on deep learning and understanding,
3. Increased responsibility and accountability on the part of the student,
4. An increased sense of autonomy in the learner

5. An interdependence between lecturer and learner,
6. Mutual respect within the learner-teacher relationship,
7. A reflexive approach to the teaching and learning process on the part of both lecturer and learner.

Basically, SCL aims to stimulate deep approaches to learning. Regarding this emphasis on deep learning and understanding, empirical observations (Baeten et al., 2010, p. 243) indicate that if lecturers are involved and oriented towards students and changing their conceptions, students are apt to use a deep approach. Moreover, Baeten et al. (ibid., p. 243) indicate that students who are satisfied with the course quality (e.g. appropriateness of workload/assessment, lecturing, and clarity of goals) employ a deep approach. Further, students whose personality is characterized by openness to experience, extraversion, conscientiousness, agreeableness and emotional stability tend to use a deeper approach (ibid., p. 243). And, if students are intrinsically motivated, feel self-confident and self-efficacious and prefer teaching methods that support learning and understanding, a deep approach will be more frequently adopted (ibid., p. 243). In an interesting doctoral thesis, Rosander (2012) finds that personality traits are important to academic performance in general, but sometimes more specifically to different school subjects. The major conclusion is that the personality traits of conscientiousness, extraversion and neuroticism correlate with overall academic performance. Initially, she believed that the personality trait of openness, being synonymous with intellectual curiosity and creativity, will lead to high ratings. Thus, if she is correct that deep learning occurs best among those who belong to the open personality type, then, given the terms of competition in the global market, SCL is an important approach to learning. By extension, the educational system has to adjust in order to better accommodate intellectually curious and creative students. Accordingly, it can be predicted that those countries that best succeed in adjusting their educational system will gain the upper hand in the global competitive environment.

The textbook's chapters are a point in case, demonstrating a deep approach to learning; and, at the same time, they are also indicative of the efficiency of the SCL approach to learning.

A recurring observation at the class level is that different classes within the same major over the years are not as homogeneous as one might expect. Instead, they differ as to how they perceive themselves as a class. Moreover, the general trend which is quite clear is that the learning outcomes significantly improve over the years. Interestingly, students seem to learn in a natural way from other or more experienced students. This may, in part, relate to the observation that the more capable students are, the better the study materials they produce. Motivation is probably one key to the learning impact from producing study materials for fellow students. Further, IT is an important and a unifying platform for SCL in that communication is a key factor in this approach to learning. This implies that the SCL environment is facilitated by or presumes advanced IT support. And, from a lecturer perspective, when the students get to choose, they tend to choose current topics; which places great demands on the lecturer's ability to relate to and absorb knowledge within that particular field of discussion. Given these observations, it is probably fair to claim that SCL is an

advanced form of learning. However, obviously, some students find it easier to apply the SCL approach to learning than others, which is something the educator constantly has to be aware of.

As to the issue of an alleged need for new theories within the field of accounting, Danielsson (1983) emphasized the importance of putting studies at firm level, or group level, in relation to studies focusing on a more aggregated level. Danielsson concedes, however, that studies of relationships between levels of analysis are inherently difficult to pursue from a methodology point of view. The economic approach to accounting theory puts an emphasis on controlling the behavior of macroeconomic indicators that result from the adoption of different accounting techniques (Riahi-Belkaoui, 2004). The general criteria used in the economic approach to accounting theory are that accounting principles and accounting techniques should reflect “economic reality” (Brooks, 1976) and that the choice of accounting techniques should depend on “economic consequences” (Zeff, 1978). Riahi-Belkaoui (2004, pp.115-116) stresses that “the economic approach and the concepts of “economic consequences” and “economic reality” have been revived since the creation of the Financial Accounting Standards Board (FASB).” And, consequentially, the International Accounting Standards Board (IASB) maintains that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making economic decisions about providing resources to the entity (Conceptual Framework, (CF)). The use of this information will result in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole (CF, QC37). Thus, the economic approach is given a pivotal role in both the FASB and the IASB.

The economic approach to the formulation of an accounting theory has influenced various accounting theories. This approach to accounting, however, is not a recent phenomenon; Coase (1990) made a call as early as the 1930s for interdisciplinary studies between economics and accounting. It is not surprising, then, that basic economic assumptions have found their way into accounting. For example, positive accounting theory is based on the suggestion that managers, shareholders, and regulators are rational and that they attempt to maximize their utility (Riahi-Belkaoui, 2004). This kind of assumption facilitates the formulation of rational models, but these come at the price of relevance and usefulness. These rational models can be contrasted with behavioral finance models, which highlight inefficiencies such as under- or over-reactions to information as causes of market trends; and in extreme cases of bubbles and crashes (cf. Barberis *et al.*, 1998; Daniel *et al.*, 1998). However, it is difficult to get alternative viewpoints to break through in science. Sometimes, it is even difficult to do research outside the dominant paradigm. The economics editor at BBC News, Stephanie Flanders, makes the observation that “the central economic debates we hear now over how best to handle the aftermath of a financial crisis are not much different from when Hayek and Keynes did battle more than 80 years ago.” The financial crisis has dislodged the economies of nations and regions into new, and unfamiliar, territories for which we do not have adequate theories. The key cause of the financial crisis is a lack of open debate and discussion. A number of independent “thinkers” have taken up the gauntlet, among

them Nobel Prize laureates Paul Krugman and Joseph Stiglitz. The Institute for New Economic Thinking (INET) is an independent think tank founded in 2009 with the aim of supporting academic research and teaching in economics outside the dominant paradigms of efficient markets and rational expectations. INET has on its advisory board, besides Joseph Stiglitz, Nobel Prize laureates George Akerlof, Sir James Mirrlees, A. Michael Spence, James Heckman, and Amartya Sen. Obviously, given the linkage between economics and accounting, we need a similar think tank within the field of accounting.

As noted by Paul Krugman (December 9, 2012), the American economy is still, by most measures, deeply depressed; at the same time, corporate profits are at a record high. Krugman offers two plausible explanations: one is that technology has taken a turn that places labor at a disadvantage; the other is that there is a sharp increase in monopoly power. In the book, “Race Against the Machine,” Erik Brynjolfsson and Andrew McAfee discuss how information technologies are affecting jobs, skills, wages, and the economy. And, in particular, how information technologies are accelerating innovation, driving productivity, and transforming employment, and the economy; what is new is that many of the jobs that have been made obsolete by information technologies are high-skill and high-wage. Brynjolfsson and McAfee (2011) identify three alternative explanations to why productivity growth has slowed and why the median income of American families has stopped rising as quickly as in the past. First, the cyclical argument holds that there is nothing new or mystical going on. Unemployment is high because the economy is not growing fast enough to put people back to work due to inadequate demand. Second, the stagnation argument maintains that the pace of technological innovation has slowed down, which affects, among other things, America’s ability to increase productivity. A variation of the stagnation argument is that other nations, particularly those located in the Asian region, have begun to catch up, and, in some areas, even surpassed Western economies. Third, the end-of-work argument holds that accelerating information technologies are putting millions of people out of jobs, jobs that will not return. Probably, these arguments are not mutually exclusive, and can be regarded as complementary.

A fourth argument, the third industrial revolution, which also relates to the previously mentioned arguments, focuses on reindustrialization. This argument holds that there is an urgent need to bring outsourced industry back to Europe, as advocated by Antonio Tajani, European Commissioner responsible for Industry and Entrepreneurship (EU, Brussels, October 10, 2012). How has this proposal been received in Germany, which is the leading economy in Europe? It has been met with interest in that the argument has been widely reflected in German newspapers, for example, in *Süddeutsche Zeitung*, which writes that “*Die EU-Kommission schlägt industriepolitischen Alarm: Die Industrieproduktion in der EU liege 10% unter dem Vorkrisenniveau, über 3 Mio. Arbeitsplätze seien verloren gegangen und der Anteil der Industrie am Bruttoinlandprodukt (BIP) sei auf zuletzt 15,6% (2011) gesunken ... Dieser Trend müsse umgekehrt werden, um nachhaltiges Wachstum und hochwertige Arbeitsplätze zu schaffen. Die «dritte industrielle Revolution» könne die Industrie zurück nach Europa bringen*” (Munich, Thursday October 11, 2012, *Süddeutsche Zeitung*).

The issue of reindustrialization has also been brought up in the USA. Krugman (December 9, 2012) observes, for example, that “one of the reasons some high-technology manufacturing has lately been moving back to the United States is that these days the most valuable piece of a computer, the motherboard, is basically made by robots, so cheap Asian labor is no longer a reason to produce them abroad.” Stiglitz (January 19, 2013), however, alleges that “globalization and technological advances have led to the loss of good manufacturing jobs, which are not likely ever to come back.”

The question arises how feasible, in general, it is to bring home outsourced businesses, together with transferred knowledge. There are several indications that there will be many hindrances to be overcome, if this is possible at all. Anyhow, the often-cited post-industrialized society has yet to materialize; which brings us to the constant need to improve our understanding of real-world phenomena.

There is a general perception that principles-based accounting is more likely to result in transactions that reflect their true economic substance than is rules-based accounting. IFRS are considered to be principles-based standards in that they establish broad rules as well as dictating specific treatments. Accounting principles are general decision rules derived from both the objectives and concepts of accounting, which provide a conceptual basis for accountants to follow instead of a list of detailed rules. Principles-based standards rely on accounting judgments, and disclosure of the choices made and the rationale for these choices are essential from an accountability as well as a valuation perspective. This section of the editorial, which is based on a paper written by the editor (Schiller, 2013), addresses the issue of how to get a grip on how accountants go about tackling complex accounting problems when they are given principles-based discretion.

Today, there is general acceptance that knowledge, skills and intangibles have become the key drivers of competitive advantage in business firms (c.f., Teece, 2000). What distinguishes intangible assets is that they are unique, at least in some sense, and must be assessed individually. This makes accounting of intangibles an interesting issue from a judgmental perspective. Moreover, the value of intangible assets arises in a specific context, which means that in some situations it may be difficult to distinguish one intangible asset from another tangible or intangible asset. Generally, intangible assets only generate cash flows in combination with complementary assets (RedU 7). Tangible fixed assets, working capital, technology, the workforce, brands and established customer relationships are examples of contributory assets (ibid.). Complementary assets in the view of IFRS 3 (2008) are more or less related to marketing-related intangible assets such as trademarks, trade names, service marks, collective marks and certification marks. IFRS 3(2008) further explicates that brand and brand name typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulae, recipes and technological expertise.

Furthermore, IFRS 3 emphasizes that the standard does not preclude an entity from recognizing, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar

useful lives. Teece (1987), who was the first to define the concept of complementary assets, has a more comprehensive, inclusive definition. Teece differentiates between complementary assets which are generic, specialized, and cospecialized: Generic assets are general purpose assets which do not need to be tailored to the innovation in question: Specialized assets are those where there is unilateral dependence between the innovation and the complementary asset: Cospecialized assets are those for which there is a bilateral dependence (*ibid.*, p. 289). In most cases, successful commercialization or use of an innovation can only be accomplished in conjunction with other generic, specialized or cospecialized assets and capabilities.

In addition, intangible assets are distinctly linked either to a business model or business process more generally, or to an innovation process more specifically. An innovation consists of certain knowledge (often technical knowledge) about how to do things better than the existing solution or design (*c.f.*, Teece, 1987). If the know-how in question can be codified, then the know-how meets the contractual-legal criterion as well as the separability criterion and can be recognized as separate from goodwill (IAS 38.12). Usually intangibles are so specific that there is no active market for them or comparable transactions (IAS 38). In a business combination, the identification of intangible assets not previously recognized requires a vigilant and thorough analysis of the acquired company's business model, value drivers, business plans, and business legal environment (RedU 7.16). Upton (2001, pp. 69–70) identifies important differences among internally generated intangible resources in that some, like R&D and software, are created in quite a similar way as tangible assets, while others, like customer lists, brand names, and databases, often come from the operating activities of a reporting entity. Still others, for example, value of insurance-in-force, exist only due to their relation to some other asset or liability. It is, according to Upton (2001), mainly items in the second and third groups that present substantial challenges in identification, recognition, and measurement. Development projects are intangible in nature; any value assignable to them is based on the underlying know-how rather than to physical items such as prototypes (Alexander *et al.*, 2009, p. 296).

An intangible economic resource arising from development or from an internal project should be recognized if, and only if, the reporting entity can demonstrate six criteria, one of which is the technical feasibility of completing the intangible asset so that it will be available for use or sale (IAS 38.57). The significance of the technical feasibility criterion is underlined by the findings of, for example, Wyatt (2005, p. 967), which indicate that the entity's choice to record intangible assets is associated with the strength of the technology, the time-to-market, and property-rights-related factors that affect the entity's ability to capture future economic benefits. Furthermore, results reported by Dedman *et al.* (2009) suggest that R&D activities are not systematically misunderstood by the market.

The concept of innovation might serve as a basis for the identification, recognition, and measurement of intangible assets by imparting conceptual relevance to the recognition criteria stated in IAS 38.57. The term innovation comes from the Latin, *innovare*, meaning “to make something new”. Different observers tend to rely on different definitions of innovation. Tidd *et al.* (2005) offer a definition that captures the essence of the term by assuming that

“innovation is a process of turning opportunity into new ideas and putting these into widely used practice” (p. 66). IAS 38.57 identifies when the innovation or development process will turn a new idea into a new product with a future of wide use in practice. According to IAS 38, development costs after the technical and commercial feasibility of the new product for sale or use have been established and before the product is available for general release are capitalized. Hence, IAS 38.57 defines when an innovation becomes an innovation.

By relating IAS 38.57 criteria to a robust model of an enterprise’s innovation process, perceived from a senior management perspective, the reliability of the recognized information may be enhanced, and/or may affect the timing of recognition.

Assets can be perceived as a repository of future economic benefits. As the future is uncertain by definition, accounting for intangible assets includes an element of uncertainty. Hence, accounting for intangible assets requires a certain amount of judgment under uncertainty. Generally, intangible assets can be acquired in a business combination, separately acquired, or internally generated (c.f., IAS 38). Accounting for intangibles in a business combination, and for internally generated intangible assets in particular, requires a great deal of judgment in uncertain circumstances. This has been taken into account by the IASB.

The Accounting Standards Board of Japan (ASBJ; 2008) conducted a survey covering a period of three years of accounting treatment of internally generated development costs of fifty large corporations, and concludes that “if an accounting standard similar to IAS 38 would be introduced in Japan, it would be necessary to incorporate more specific guidelines with regard to how management should make estimates and judgements” (ibid., p. 4). The ASBJ’s conclusion indicates the need to complement IAS 38 with additional guidelines or heuristics.

People, according to Tversky and Kahneman (1974), tend to rely on a limited number of heuristic principles when dealing with complex and/or uncertain tasks. In most cases, these heuristics are quite useful, but sometimes they lead to systematic errors. Frequently, heuristics are associated with how experienced individuals or experts solve problems or make judgments. Contrasting experts with novices, findings suggest that experts’ knowledge is represented at a deep level, while novices’ knowledge is represented at a more concrete and surface level. In physics, for example, it appears that experts classify according to the major physics principle governing the solution of each problem (Chi *et al.*, 1981). A translation of this finding into the field of accounting would suggest that an experienced accountant may use heuristics to identify what model, or more generally, what accounting principle is applicable to what accounting problem based on experience. Initially, this identification or pattern-matching process takes place in the intuitive judgment system, or System 1, which is characterized by being fast, parallel, automatic, effortless, associative and slow-learning. The experienced accountant’s mental schemata contain procedural knowledge which helps in identifying and making use of applicable models. Hence, the deliberate operations of System 2, or reasoning, take the upper hand, checking and putting the model to effective use. The process of System 2 is characterized as being slow, serial, controlled, effortful, rule-governed,

and flexible. Eriksson and Mehanovic (2012) conclude that in order to appropriate the gains of a fast technological cycle, large companies tend to build up formal heuristics. This indicates that the size of the company has implications for the extent to which heuristics will be applicable.

The value of intangible assets, which holds for all assets, is directly related to future benefits; the problem of assessing the value of assets is that we can only make educated guesses about the future. Thus it is imperative for the preparer of financial reports to provide all relevant information about material accounting items and events so that the reports meet the common needs of most users, including the need to assess the accounting judgments made concerning identifying, measuring and recognizing internally generated intangible assets. Referring to future benefits calls for accountability, or giving reasons for the judgments made in the financial reports. One important source of accountability information is that disclosed in the notes to the financial statements. According to the FASB (2012) a disclosure in the notes is applicable if the information, individually or in combination with other related information, would affect users' assessments of prospects for cash flows by a material amount (*ibid.*, p. 47).

Given the importance of intangible assets, including internally generated assets, as a value driver for economic growth, there is good reason to assume that information disclosed in the notes about what accounting judgments are made concerning internally generated intangible assets, and on what grounds, is relevant information. The grounds can include assumptions made, which heuristics of judgment are applied, and which biases are avoided. In addition to meeting the needs of users, by providing this accountability information the preparers will also develop their skills in making accounting judgments regarding internally generated intangible assets. Also, from a regulating point of view, the standard-setters will be able to collect and analyze information that reveals not just accounting practice, but the thinking and reasoning of preparers regarding internally generated intangible assets.

According to Ashton and Ashton (1999), accounting judgment tasks are to be related to institutional professional settings, which include generally accepted accounting principles, a highly structured system. Although heuristics yield "rough and ready" solutions, they draw on underlying processes that are highly sophisticated (Kahneman and Tversky, 1974). From an accounting point of view, it is vital that judgments and intentions produced by System 1 can be modified or overridden by the deliberate operations of System 2, that is, that a direct interrelationship exists between intuition and reasoning. This indicates that heuristics are experience-based, which makes it interesting to study accounting judgments from a heuristics perspective. By studying the underlying processes on which accounting judgments are founded we can learn more about how accountants reason in relation to various accounting standards given different economic situations. The focus is on how accountants go about tackling complex accounting problems. Hence, this paper takes a different view on heuristics and biases related to accounting judgments than do previous research in that the main focus is

set on the use and design of heuristics and biases and to a lesser extent on departures from normative decision-making behavior.

The editor of this textbook is well aware of the fact that most students do not have long-standing experience in accounting practice. The proposed method for studying how experienced accountants solve complex accounting problems may, however, be helpful even for non-experienced students of accounting, especially when they are as capable as the authors of this textbook.

The contents of this textbook, *IFRS Accounting in Progress – from a student perspective*, have been organized in five sections. Section 1 “Fair value accounting” consists of one chapter, Section 2 “Convergence of accounting standards and auditor's work tasks” is made up of two chapters, and Section 3 “Consolidated accounts” comprises two chapters. Section 4 “Selected exposure drafts” includes three chapters; whereas Section 5 “Goodwill” consists of two chapters.

Section 1 Fair value accounting

Chapter 1 *Fair Value Measurement – The Complexity of Valuation* is written by Eva-Marie Heldesten, Caroline Lagerholm and Susanna Persson. Summary: This chapter seeks to explain the differences between the definitions of fair value and the content of the different standards, and to answer the question if fair value measurement meets the different criteria for financial reports. The new standard IFRS 13 *Fair Value Measurement* applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The authors conclude that there are various definitions of fair value, but with the new standard IFRS 13, the definitions harmonize. Furthermore, the views regarding fair value differ and it is obvious that there is no valuation method that is impeccable. Measuring all assets and liabilities at fair value is inappropriate; however, for some assets and liabilities it seems to be the best choice.

Section 2 Convergence of accounting standards and auditor's work tasks

Chapter 2 *The challenges of accounting standards convergence process – with focus on IFRS and US GAAP* is written by Lina Edqvist, Malin Ekdahl, Madelene Görs and Sarah Pers.

Summary: The ultimate goal of accounting standards convergence, as stated by the FASB and IASB, is a single set of high-quality, international accounting standards that companies worldwide can use for both domestic and cross-border financial reporting. Demand for international convergence is driven by investors' desire for high-quality, internationally comparable financial information that is useful for decision-making in our increasingly global capital market. However, there has been criticism directed towards the convergence process. After reviewing the subject, the authors conclude that the main problem in the convergence process is not factors such as auditing and accounting culture or language, but is instead the combination of the fact that the US is a country with a strong regulatory system, generally known for allowing lawsuits for many different reasons, and that it uses a rules-based accounting approach.

Chapter 3 *The role of the certified public accountant in different countries* is written by Anna Karlsson, Maria Peiving and Andreas Sandin. Summary: This chapter sets out from the observation that even though the work of a certified public accountant (CPA) has been the subject of harmonization with the help of standards and auditing practices over the years, the auditing is still carried out very differently across the world. After studying the practice of auditors in China, Germany, Japan, Mexico, the UK, and Sweden, the authors come to the conclusion that the culture of a country, how education and knowledge are organized, the form and efficiency of its legal system, and who the main providers of finance to the companies are, all have an impact on how auditors work. The authors conclude by noting that all countries in this chapter are members of IFAC and if everyone were to use one standard, such as ISA, many differences and problems might disappear.

Section 3 Consolidated accounts

Chapter 4 *Consolidation of financial statements* is written by Hugo Lilja, Andreas Magnusson, Björn Smedman and Martin Tingvall. Summary: This chapter sets out to explain the differences in the definition of control between the old standards IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation—Special Purpose Entities* and the new IFRS 10 *Consolidated Financial Statements*. IFRS 10 outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate the entities they control. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee. The authors conclude that the new single control model in IFRS 10 will lead to consistency in the consolidation procedures. All entities will have to follow the same guidelines and, if applied correctly, this will enhance the comparability between companies' financial reports.

Chapter 5 IFRS 11 *Joint Arrangements* is written by Moa Ramberg, Martin Rodenberg and Nathalie Thörnqvist. Summary: IFRS 11 *Joint Arrangements* outlines the accounting by entities that jointly control an arrangement. IFRS 11 uses the form and true content of the arrangement instead of the legal form of the agreement. IFRS 11 has first and foremost made it easier to compare different companies that account in accordance with IFRS. One purpose of IFRS 11 was to achieve convergence with the US GAAP, yet this was not reached. However, IFRS 11 reduces the differences between the standards, and it also increases the possibility of comparing companies that account in accordance with the two standards.

Section 4 Selected exposure drafts

Chapter 6 *Lessee accounting* is written by Emelie Bojmar and Malin Petersson. Summary: The purpose of this chapter is to obtain a greater understanding of the proposed lessee accounting model and how implementing it can change lessee accounting (ED/2010/9). By means of analytical reasoning, the authors evaluate the potential advantages and disadvantages that the Exposure Draft may bring about. The authors conclude that if the problem is considered to be the classification between operational and finance leases, then the IASB's solution of developing one single accounting model is accurate. On the other hand, if

the problem is considered to be that the lessees abuse the explicit criteria in IAS 17, a better solution would be to modify the criteria. And whether the ED/2010/9 provides a less accurate depiction of leasing activities or not depends on whether the lease agreement is considered to be similar to a debt-financed purchase or a rental agreement.

Chapter 7 *Hedge accounting – simplified with new rules?* is written by Linus Lindholm, Mikael Örtenvik, Björn Forsberg and Alexis Muhoza. Summary: The purpose of this chapter is to provide the reader with an understanding of hedge accounting before and after the change of the hedge accounting requirements that will be added to IFRS 9 *Financial Instruments*, and to discuss whether a move to a principles-based standard better reflects the risk management activities of companies. By answering the questions: (1) How is the new standard perceived by standard setters, preparers and users of financial statements, and (2) In what manner does IFRS 9 better reflect risk management activities of entities? the authors come to the conclusion that a clearer definition of the hedge effectiveness objective, together with the option to use qualitative tests, will better align accounting with strategy. Furthermore, the removal of the retrospective test should open up hedge accounting to a wider range of companies. Moreover, the authors maintain that the move to a principles-based standard has done much in order to better reflect companies' risk management activities, but there is still a need to investigate further how to simplify hedge accounting.

Chapter 8 *Revenue Recognition – the past, the present and the future* is written by Erik Fyhrlund, Emma Hedman, Anna Sjögren and Jenni Strand. Summary: This chapter sets out to describe the reasons behind the convergence project of revenue recognition between the FASB and the IASB. Additionally, the question regarding how the new proposed standard, Revenue from Contracts with Customers, will affect entities and users of financial statements are discussed. The stated objectives of the proposed standard are to remove inconsistencies and weaknesses in existing revenue requirements, improve comparability and provide more useful information to the users of financial statements. Concerning the issue of how Revenue from Contracts with Customers will affect entities and users of financial statements, the authors come to the conclusion that the new standard will facilitate for entities in many ways, i.e. by using the five step model for all revenues and by providing more and clearer guidance. This can lead to a better match between revenues and expenses, resulting in a truer and fairer view of the financial statements.

Section 5 Goodwill

Chapter 9 *Management's possibilities to affect impairment of goodwill* is written by Sarah Bengtsson, Fridolf Gustavsson and Ann-Sofie Vedenbrant. Summary: A company reporting under IFRS follows the principles in IAS 36 *Impairment of Assets*. The US GAAP and IFRS contain similar impairment indicators for assessing the impairment of non-current assets. The authors discuss the problem of impairment testing and how management measures whether there is a need for impairment. How significant is measurement? Is there room for management to make free interpretations? After analyzing the subject, the authors conclude that it is possible for management to make their own interpretations, as the various valuation

models are based on various factors. IAS 36 gives the management room for discretion. The factors may include discount rate, expected future cash flows and recognition of revenues.

Chapter 10 *Essence and complexity of goodwill* is written by Julia Färnemyhr, Anna Gustavsson, Lina Hederberg and Johan Norrman. Summary: By definition, goodwill is a complex, abstract, and open-ended item, and, consequently, there are ongoing efforts to reduce the costs and complexity of applying goodwill impairment guidance. The authors raise questions about what goodwill really is and if it is too complex to be informative and relevant to the users. The aim of this chapter is to investigate the essence of goodwill and especially to analyze the usefulness of the information received in financial reports. The questions at issue are: What is the essence of goodwill? Why is goodwill reporting complex? and How important is disclosure to the users of the financial reports? Compared to amortizations, the procedure with impairment creates larger fluctuations in earnings. An inconsistent area in the treatment of impairment is that it is not allowed to reverse impairment. This fact leads the authors to conclude that goodwill is only a residual, and that it might then be better to call goodwill *lines of errors and omissions* to clarify for the users what it really is.

References

- Alexander, D., Britton, A. and Jorissen, A. (2009). *International financial reporting and analysis*, 4th edition, Andover: Cengage Learning EMEA.
- ASBJ. 2008. Case study analysis: Accounting treatment of internally generated development costs under IAS38, Accounting Standards Board of Japan, Issued November 10, 2008, pp. 1-25.
- Ashton, R.H. and Ashton, A.H. (1999). Judgment and decision-making research in accounting and auditing: Overview. In Ashton, R.H. and A.H. Ashton (Eds.), *Judgment and decision-making research in accounting and auditing*, Cambridge Series on Judgment and Decision Making. Cambridge: Cambridge University Press.
- Baeten, M., Kyndt, E., Struyven, K. and Dochy, F. (2010). Using Student-Centred Learning Environments to Stimulate Deep Approaches to Learning: Factors Encouraging or Discouraging their Effectiveness. *Educational Research Review*, Vol. 5, Issue, 3, pp. 243-260.
- Barberis, N., Shleifer, A. and Vishny, R. (1998). A Model of Investor Sentiment, *Journal of Financial Economics*, Vol. 49, pp. 307-343.
- Brooks, L.L. (1976). Accounting Policies Should Reflect Economic Reality, *The Canadian Chartered Accountant Magazine*, (November), pp. 39-43.
- Brynjolfsson, E. and McAfee, A. (2011). *Race against the machine - How the digital revolution is accelerating innovation, driving productivity, and irreversibly transforming employment and the economy*. Lexington, Massachusetts: Digital Frontier Press.
- Chi, M. T.; Feltovich, P. J.; Glaser, R. (1981). Categorization and representation of physics problems by experts and novices. *Cognitive Science*, Vol. 5, No. 2, pp. 121–152.

- Coase, R.H. (1990). Accounting and the Theory of the Firm, *Journal of Accounting and Economics*, Vol. 12, pp. 3-13.
- Daniel, K. Hirshleifer, D. Subrahmanyam, A. (1998). Investor Psychology and Security Market under- and Overreactions, *The Journal of Finance*, Vol. 53, No. 6, pp. 1839-1885.
- Danielsson, A. (1983). Företagsekonomi: En översikt (Business Administration: An Overview). Lund: Studentlitteratur.
- Eriksson, S. and Mehanovic, A. (2012). Internally generated intangible assets: A study on identifiability and recognition in the consumer goods and service industry. Master Thesis/Empirical research study, Linköping University.
- FASB (2012). Disclosure Framework, Invitation to Comment. Discussion paper, Connecticut: Norwalk.
- Gilovich, T. & Griffin, D. (2002). Introduction - heuristics and biases: Then and now, in Thomas Gilovich, Dale Griffin, Daniel Kahneman (Eds.). *Heuristics and biases: Psychology of intuitive judgment*, Cambridge University Press.
- Gilovich, T. (1991). *How we know what isn't so: The fallibility of human reason in everyday life*. Free Press.
- Kahneman, D. (2002). *Maps of bounded rationality: A perspective on intuitive judgment and choice*. Prize Lecture, December 8, 2002, Princeton University, Department of Psychology, Princeton, NJ 08544, USA.
- Kahneman, D. and Frederick, S. (2002). Representativeness revisited: Attribute substitution in intuitive judgment. In T. Gilovich, D. Griffin & D. Kahneman (Eds.), *Heuristics and Biases* (pp. 49–81). New York: Cambridge University Press.
- Kahneman, D. and Frederick, S. (2005). A Model of Heuristic Judgment, in Keith J. Holyoak and Robert G. Morrison (Eds.), *The Cambridge handbook of thinking and reasoning*, Cambridge University Press.
- Kolb, D.A. (1984). *Experiential learning: experience as the source of learning and development*. Englewood Cliffs, NJ: Prentice Hall.
- O'Neill, G. and McMullin, B. (2005). Student-Centred Learning: What Does it Mean for Students and Lecturers?, in G. O'Neill, S. Moore, S. and B. McMullin (Eds.), *Emerging Issues in the Practice of University Learning and Teaching*. AISHE, Dublin.
- RedU 7 (2012). Värdering av tillgångar och skulder vid redovisning av företagsförvärv samt vid prövning av nedskrivningsbehov enligt IFRS (Valuation of assets and liabilities at the accounting for business combinations and in the impairment test under IFRS). FAR Omnibus, FAR Academy.
- Riahi-Belkaoui, A. (2004). *Accounting Theory*, South-Western Cengage Learning.
- Rosander, P. (2012). *The importance of personality, IQ and learning approaches: Predicting academic performance*. PhD Thesis, Department of Psychology, Lund University.
- Schiller, S. (2013). Heuristics or experience-based techniques for making: Accounting judgements and learning. (January). Linköping University.
- Teece, D. J. (2000). *Managing intellectual capital: Organizational, strategic, and policy dimensions*. Oxford: Oxford University Press.
- Teece, D.J. (1987). *The Competitive challenge: Strategies for industrial innovation and renewal*. Cambridge, Mass: Ballinger Pub.

- Tidd, J., Bessant, J. and Pavitt, K. (2005). *Managing innovation: integrating technological, market and organizational change*, 3rd edition. John Wiley & Sons, Chichester.
- Tversky, A. and Kahneman, D. (1974). Judgment under Uncertainty: Heuristics and Biases, *Science*, New Series, Vol. 185, No. 4157, pp. 1124-1131.
- Upton, Jr., W.S. (2001). *Business and Financial Reporting: Challenges from the New Economy*. Special report, No. 219-a, April 2001. Financial Accounting Series, FASB.
- Wyatt, A. (2005). Accounting recognition of intangible assets: theory and evidence on economic determinants, *Accounting Review*, Vol. 80, No. 3, pp. 967-1003.
- Zeff, A.S. (1978). The Rise of 'Economic Consequences', *Journal of Accountancy* (December), pp. 56-63.

Internet

- Flanders, S. (2012). A Nobel Prize for Beauty – and Truth, BBC News, Business, [www] 15 October, 2012 [cited on January 15, 2013]. Available from:
<http://www.bbc.co.uk/news/business-19954671>
- Krugman, P. (2012). Robots and Robber Barons. The New York Times. The Opinion Pages, December 9, 2012 [cited on January 19, 2013]. Available from:
http://www.nytimes.com/2012/12/10/opinion/krugman-robots-and-robber-barons.html?_r=0
- Krugman, P. (2012). Is Growth Over? The New York Times. The Opinion Pages, December 26, 2012, 10:38 am [cited on January 20, 2013]. Available from:
<http://krugman.blogs.nytimes.com/2012/12/26/is-growth-over/>
- Krugman, P. (2013). The Big Fail. The New York Times. The Opinion Pages. January 6, 2013 [cited on January 19, 2013]. Available from:
<http://www.nytimes.com/2013/01/07/opinion/krugman-the-big-fail.html>
- Stiglitz, J. (2013). Inequality Is Holding Back the Recovery. The New York Times. January 19, 2013 [cited on January 21, 2013]. Available from:
<http://opinionator.blogs.nytimes.com/2013/01/19/inequality-is-holding-back-the-recovery/?hp>