

SUBSTANCE OVER FORM

- en redovisningsrättslig studie



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Abstract

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This thesis deals with substance over form and economic reality in accounting law. An extensive study is made of the International Financial Reporting Standards (IFRS) regarding accounting for inventories, property plant and equipment, investment property, intangible assets, construction contracts, finance and operating leases and some issues regarding consolidated financial statements, business combinations and consolidation of Special Purpose Entities (SPE).

The study is intended to clarify whether the investigated rules in IFRS can express substance over form when they are applied in a Swedish legal context. An investigation is also performed as regards the question whether Swedish accepted industry practices for construction contracts express substance over form. In the analysis reference is made mainly to typical cases. The intention is to make evident the meaning of the complex principle based rules in a pedagogical way.

The thesis also examines whether the investigated rules reflect the economic reality of the enterprise or the market or both. The investigation is also intended to identify the cases when the overriding rule might be applied to deviate from a standard in order to achieve fair presentation.

In the thesis, the qualitative characteristics in the IASBs Framework for the Preparation and Presentation of Financial Statements are also studied to see whether they can express substance over form and economic reality.

The results of the investigation are summarized in a model describing the different stages in the life cycle of an asset or a liability in a company, referred to as the circular flow model. The circular flow model is based on three frameworks: The legal framework, the Framework for the Preparation and Presentation of Financial Statements and the legal sources in IFRS.

The stages of the circular flow model consist of definition/classification, recognition, initial measurement, measurement after recognition, transfers/reclassification and derecognition. Based on conclusions made for the investigated topics, a descriptive theory on economic reality called the life cycle theory is presented. Important components of this theory are significant/substantial risks and rewards from ownership, control, value, purpose, characteristics, space, time and ethics.

A normative theory on economic reality is also proposed, referred to as the dimension theory. The dimension theory is based on the eight components of the life cycle theory. Every component is multidimensional. The purpose of the dimension theory is to supply tools to improve existing and develop new accounting standards representing economic reality. In the dimension theory another component is added, namely information quality, which has dimensions of relevance, comparability, neutrality, coherence and character of norms, meaning norms based on principles or rules.

The theories proposed in the thesis can be looked upon as a basis and starting point for further development of a theory in the field of accounting law.

Finally, two methods are proposed. The first method can be used by standard setters to develop accounting standards. The second method can be used for analysing existing accounting rules. It may also be utilised in legal argumentation with the intention of forming an accounting policy leading to fair presentation.

Keywords: Substance over form, economic substance, economic reality, form, legal form, legal reality, fair presentation, accounting law.

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