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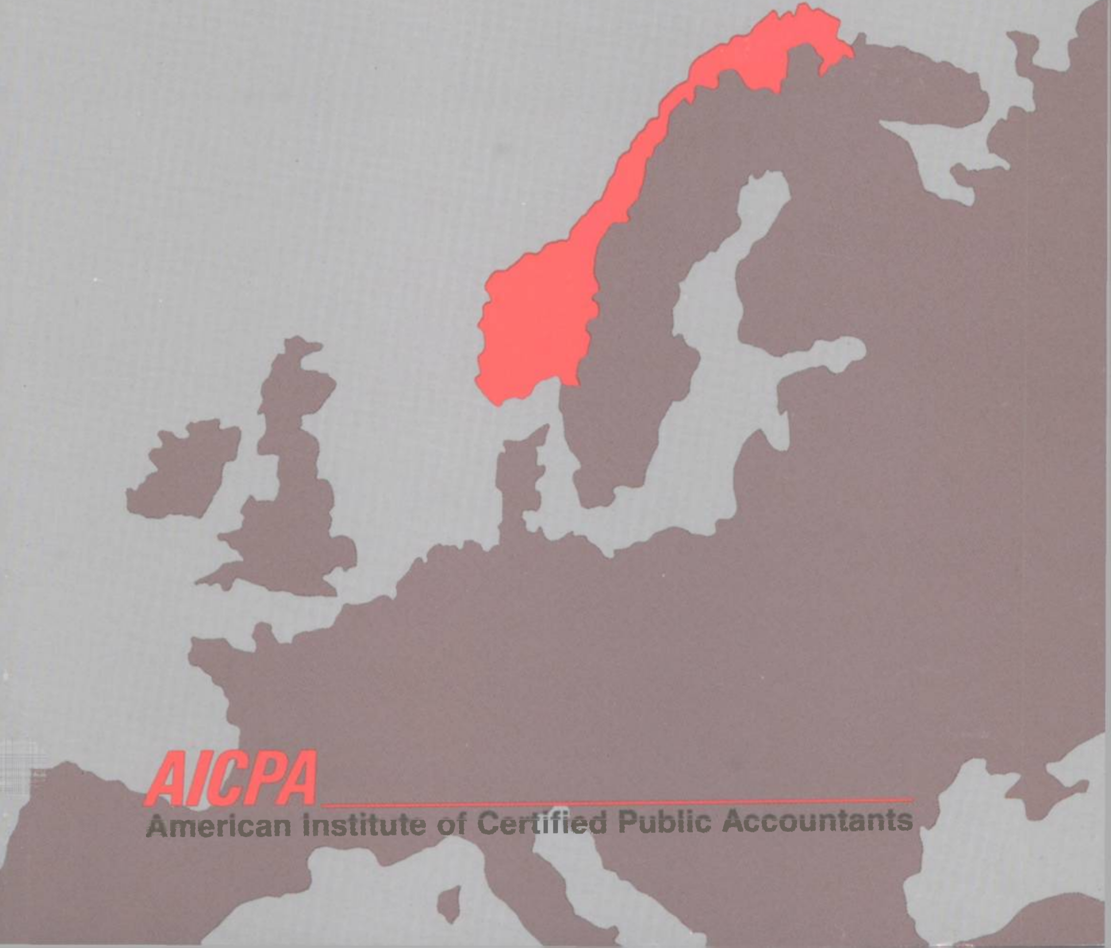
Forum Touche Ross

Steven F. Moliterno

The Accounting Profession in Norway

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



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The Accounting Profession in Norway
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES
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The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

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The Accounting Profession in Norway

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of July 1992. Changes after this date in the standards of either the United States or Norway may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Norway. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing Norwegian auditing standards and accounting principles with those generally accepted in the United States are included as appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in Norway but is designed instead to focus primarily on differences from those of the United States.

John F. Hudson
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Contents

Preface iii

1 The Accounting Profession 1

Requirements for Entry Into the Profession 1
- Domestic Functions and Licensing Requirements 1
- Foreign Reciprocity 2

Roles and Responsibilities of Standard-Setting Bodies 2
- Professional Standards Promulgated by Each Body 2
- Ethics Requirements 3

Professional Public Accounting Organizations 3
- Requirements for Membership 4
- Rights of Membership 4
- Number of Members 4
- CPE Requirements 4

2 Auditing Requirements 5

Statutory Auditing and Reporting Requirements 5
- Purpose of the Statutory Audit 5
- Entities Required to Be Audited 6
- Appointment and Qualifications of Auditors 6
- Auditing and Reporting Responsibilities 8
- Filing of Reports 9

Summary of Significant Auditing Standards and Comparison With U.S. Generally Accepted Auditing Standards (GAAS) 10
- Standards Issued 10
- General Standards 10
- Standards of Fieldwork 11
- Standards of Reporting 12

3 Accounting Principles and Practices **17**

Sources of Accounting Principles 17
Form and Content of Financial Statements 17
  Presentation of Statements 17
  Types of Statements Prepared 18
Summary of Significant Accounting Principles and Comparison With U.S. Generally Accepted Accounting Principles (GAAP) 18

4 Business Environment **25**

Forms of Business Organization 25
  Entities With Corporate Attributes 25
  Partnership Entities 27
  Branch of a Foreign Company 28
  Sole Proprietor 29
Requirements for Public Sales of Securities and for Listing Securities on the Stock Exchange 29
  Registration Requirements for Public Sale 29
  Requirements for Listing Securities on the Stock Exchange 29
Selected Economic Data 30
Taxes 32
  Principal Types 32
  Tax Returns 33

Appendix A—Outstanding Auditing Pronouncements **35**
Appendix B—Outstanding Accounting Pronouncements **37**
Appendix C—Illustrative Auditor's Report and Financial Statements **39**
Appendix D—Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States With Auditing Standards in Norway **50**
Appendix E—Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States With Accounting Principles in Norway **56**

Bibliography **73**

1 The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. An auditor's primary function is to perform a statutory audit and issue a report thereon. Consultancy work may also be provided and is limited to areas within the auditor's general knowledge. Consultancy work is therefore primarily related to general business and tax advice. An auditor has the right to act as a legal representative for audit clients and others in connection with disputes with local authorities regarding taxes.

2. The auditor's work is primarily limited to the private sector. All joint-stock companies (limited companies) must have an external auditor. A joint-stock company must have share capital of at least 50,000 Norwegian kroner (NOK). General partnerships and limited partnerships must also appoint an external auditor.

3. A statutory audit can only be performed by a state-authorized public accountant (*statsautorisert revisor*) or by a registered public accountant (*registrert revisor*). However, a registered public accountant is not authorized to carry out statutory audits of large enterprises, publicly listed companies, and certain other companies.

4. Authorization is granted by the Banking, Insurance, and Securities Commission (Kredittilsynet), which also has the power of taking disciplinary action against accountants. To obtain authorization, an application must be filed containing evidence regarding the

successful completion of university-level exams and a minimum of two years of practical experience with a public accounting firm.

Foreign Reciprocity

5. Only accountants authorized in Norway may be appointed auditors. Norwegian laws are liberal with respect to allowing foreigners to work in a Norwegian accounting firm.

6. In the next few years, Norway will probably liberalize its existing laws regulating statutory audits by foreigners. It is likely that foreign accountants who hold a comparable authorization in their home country and who have passed a test will be granted Norwegian authorization and be given the right to practice on equal terms with Norwegian accountants.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

7. The basic principles of auditing and of the presentation of financial statements are promulgated in official laws and regulations.

8. Both financial accounting standards and professional standards have been published by a number of organizations. The Norwegian Institute of State-Authorized Public Accountants (NSRF, or the Institute) has played an important role in this work and can be reached at the following address:

Norges Statsautoriserte Revisorers Forening
Uranienborg terrasse 9
Oslo 3

9. Since 1978 the NSRF has published financial accounting standards covering a wide area of accounting issues.

10. As a result of a joint initiative by six organizations, the Norwegian Accounting Standards Board (NRS) was founded in 1989. The NRS was established for the purpose of developing and publishing financial accounting standards as well as interpreting questions

of principle in connection with published standards. Norwegian authorities support this work but do not play an active role in the process. The Oslo Stock Exchange also issues recommendations for listed companies. (Financial accounting standards are listed in appendix B.)

11. Since 1968, the NSRF has been working on developing and publishing professional standards.

12. The Norwegian Institute of Registered Public Accountants (NRRF) considers the professional standards published by the NSRF to be binding for its members. Therefore, all practicing accountants are, in fact, subject to the standards published by the NSRF.

13. Both the NSRF and the NRRF are working on implementing a quality review program giving the two institutes the right to review the quality of the services provided by their members.

Ethics Requirements

14. The NSRF has developed a professional code of ethics for its members. The professional code provides standards on professional conduct and auditors' independence. Furthermore, the professional code regulates the auditor's relationship to his or her clients, to other accountants, and to the general public. The NSRF may take disciplinary action when auditors fail to adhere to the professional code.

15. The principles in the professional code of ethics are based on those in the International Federation of Accountants (IFAC) professional code. The NRRF has developed a professional code of ethics similar to that of the NSRF.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

16. The NSRF includes all state-authorized public accountants and the NSRF's work is aimed primarily at assisting state-authorized public accountants practicing as external auditors.

17. In addition to working with issues related to the accountant's general working conditions, the NSRF has put much effort into developing financial accounting standards and professional standards.

18. Registered public accountants are organized through the NRRF. The institute has approximately 1,000 members.

Requirements for Membership

19. Membership to the NSRF is open to all state-authorized public accountants (that is, partners and employees of accounting firms, as well as state-authorized public accountants employed elsewhere in the private or public sector). As of June 1991, members of equivalent foreign institutes may become members of the NSRF.

Rights of Membership

20. All members of the NSRF have an equal right to participate in the annual general meeting and in all activities organized by the Institute. In addition, a conference of members is held annually. The main topics at the conference are the Institute's future tasks, its future policies, and developments in accounting and auditing. All members may participate in courses and seminars arranged by the Institute and may also raise questions related to the profession.

Number of Members

21. As of 1991, the NSRF had approximately 1,150 practicing members. Approximately 88 percent of the members are engaged in external auditing both as partners and employees, 4 percent are engaged in internal auditing, and the remaining 8 percent are employed in industry, the public sector, or education.

CPE Requirements

22. At present there is no requirement for training subsequent to authorization. In the near future, however, such training is likely to become part of the requirements for renewal of authorization, which occurs every five years. The requirement for further training will probably be in accordance with the IFAC recommendation of at least thirty hours per year.

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

23. In the basic auditing principles standard (God revisjonsskikk [GRS] No. 1, *Conceptual Framework for the Audit*), the purpose of an audit is based on the need for a professional and independent review and confirmation of financial information.

24. The purpose of a statutory audit is to confirm that the enterprise's annual report is in accordance with legal requirements and generally accepted accounting principles.

25. The appointed external auditor's function, therefore, is to obtain sufficient evidence that will enable him or her to determine whether material errors or omissions exist in the annual report (which includes financial statements and accompanying notes, as well as the board-of-directors report). The audit is not designed to detect all errors or omissions.

26. In Norway the financial statements are also the basis for taxation of the enterprise's income and net worth. The enterprise's auditor is required by law to certify the client's tax return. Thus, the materiality level related to an audit in Norway may be lower than that in the United States and the detail level of audit work performed may be greater. The audit requirements in this regard are stated in GRS No. 11, *Auditor's Examination of Taxes and Fees.*

Entities Required to Be Audited

27. A June 1990 change in the Norwegian Audit Law requires all enterprises having revenue of at least NOK 2 million to undergo an annual audit. Therefore, only small sole proprietorships and dormant companies are exempt from the obligatory audit.

28. The most common business entity in Norway is the corporation. A corporation must have share capital of at least NOK 50,000. According to the Joint-Stock Act, all corporations, regardless of size, are required to undergo an audit.

29. Furthermore, according to the Norwegian Audit Law and industry laws, the following enterprises must undergo an audit regardless of size:

- General partnerships
- Limited partnerships
- Mutual insurance companies
- Pension insurance funds
- Certain real estate entities
- Savings and commercial banks
- Financing companies
- Charitable and noncharitable organizations

Appointment and Qualifications of Auditors

30. To ensure the auditor's independence, the authority to appoint the auditor is given to groups other than the board of directors and managing director (president), to the extent possible.

31. For corporations, the auditor is appointed by the general assembly (shareholders meeting).

32. For companies required to be audited in accordance with industry laws, the auditor is appointed by the general assembly. However, for savings banks, commercial banks, and financial institutions, the auditor is appointed by a committee consisting of representatives elected by the investors.

33. In other companies in which the requirements for an audit are governed by the Norwegian Audit Law, no specific guidelines are given regarding the appointment of the auditor. However, for

companies with limited liability, the law assumes that the auditor is appointed at the general assembly.

34. Some specific industry regulations or laws have additional requirements regarding those who appoint the auditor, and in general, an appointed auditor serves the enterprise until a new auditor is appointed.

35. The Norwegian Audit Law states the specific qualifications required of an auditor, including the amount of both theoretical education and practical experience. In Norway two categories of auditors meet these qualifications: registered accountants and state-authorized public accountants.

36. The following are the requirements for a registered accountant:

- Three years of college study in business administration, including specific accounting and auditing courses
- A passing grade on the registered accounting exam
- Two years of varied practice as an employee for another registered or state-authorized public accountant

37. The following are the requirements for a state-authorized public accountant:

- A passing grade on the registered accounting exam or completion of a minimum of four years of university education (with a degree in business administration, law, or social economics)
- A passing grade on the state-authorized accounting exam, after an additional one and one-half years of university education
- Two years of varied practice with a public accounting firm

38. Only an individual who is a registered or state-authorized public accountant may be appointed as an enterprise's statutory auditor.

39. The following enterprises are required by law to appoint a state-authorized public accountant:

- Companies that have listed shares or bonds for public trade
- Companies having more than 200 employees
- Real estate companies
- Investment companies

Auditing and Reporting Responsibilities

40. An enterprise's management and board of directors have the responsibility (by law) for ensuring that—

- The enterprise's accounts are maintained in accordance with laws and regulations.
- The enterprise's assets are managed properly and are under adequate internal control.
- An annual financial statement (annual report) is prepared in accordance with the law and is based on generally accepted accounting principles.

41. The law requires that the annual report include all information necessary and appropriate to enable the user to understand the enterprise's financial position and the results of its operations.

42. The annual report must be completed and approved by the general assembly within six months from the balance sheet date. The annual report must include the following:

- An income statement
- A balance sheet
- Footnotes and disclosures as required by law and generally accepted accounting principles
- A statement of changes in financial position or a cash flow statement
- A board-of-directors report, commenting on specific issues required by law
- For a parent company, consolidated financial statements in addition to its own financial statements

43. The financial statements must be signed by the board of directors and the company's president or managing director. The annual report must be formally approved by the general assembly.

44. The enterprise's external auditor must issue an auditor's report on the annual report. The auditor's report gives an independent confirmation that the annual report includes all the information necessary for a full understanding of the company's results of operations and financial position.

45. The Joint-Stock Act requires the auditor's report to be addressed to the general assembly. Some specific industry laws give

further detailed requirements regarding the format and addressee of the auditor's report.

46. The Joint-Stock Act requires the auditor's report to be available to the board of directors at least two weeks before the general assembly. The Norwegian Audit Law requires that the auditor's report be issued without unnecessary delay following finalization of the financial statements.

47. Limited companies meeting the definition of large companies must also issue semi-annual (or more frequent) reports. These reports must include the following:

- Comments on operations and information on profits for the period subsequent to last financial year-end
- Information on changes in liquidity and financial position
- A report from the board of directors, including most of the same contents as those required from the board for the annual report
- For parent companies, financial information pertaining to the consolidated accounts

48. The external auditor is not required to issue any opinion on the semi-annual report. However, if the auditor has knowledge about misleading information or material misstatements in the semi-annual report, such information must be included in the auditor's report on the annual financial statements.

49. Companies may present information exceeding what is required by law in their annual reports. Such information may be statistical data regarding profits, key financial ratios, segment information, budget information, and future prospects. Such additional information is not considered part of the audited financial statements and thus is not the external auditor's responsibility.

Filing of Reports

50. The auditor's report is, by law, an integrated part of an enterprise's annual report and must be filed.

51. Financial reports, vouchers, and other supporting documentation, as defined by law, must be organized and stored in Norway for a period of ten years from the balance sheet date.

52. Limited companies must file their annual report (including the auditor's report) with a central public register within one month

after the date of the general assembly's approval of the annual report. The contents of all reports filed with this register are available to the public for a period of ten years. For other enterprises, there are currently no requirements for filing annual reports with a public register.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

53. The Norwegian Audit Law, as well as the Joint-Stock Act, requires the external auditor to perform the audit in accordance with generally accepted auditing standards.

54. The NSRF has issued a number of proposed and approved generally accepted auditing standards.

55. A proposed generally accepted auditing standard implies that its proposed principles *should* be followed whereas the principles in an approved standard *must* be followed. The proposed standard is approved by the NSRF when (*a*) the proposed principles are considered to represent the predominant practice among the profession and (*b*) the profession has had a sufficient amount of time to meet the requirements of the new standard.

56. At present, the NSRF has issued twelve approved standards and seven proposed standards. (A detailed list of these standards is given in appendix A.)

General Standards

57. GRS No. 1 specifies the following regarding the external auditor:

a. The auditor must constantly consider whether he or she has the necessary competence, capability, and capacity to perform the audit in accordance with generally accepted auditing standards.

b. The auditor must be independent in all respects from the client.

c. When the law requires a company's financial statements to be audited, the auditor cannot agree to limit the audit work required by generally accepted auditing standards.

d. With a few exceptions regulated by law, the auditor must keep all information and knowledge obtained during an audit confidential.

58. The foregoing requirements are detailed in GRS No. 9, *Internal Quality Control.*

59. GRS No. 9 also provides detailed requirements regarding the external auditor's own organization. The standard requires the individual auditing firm to establish internal guidelines and procedures assuring (*a*) sufficient and adequate planning, performance, documentation, and review of any audit and (*b*) appropriate technical training and continued professional education of the firm's partners and staff.

Standards of Fieldwork

60. GRS No. 1 gives the following general guidance for the performance of an audit:

a. An audit must be sufficiently and adequately planned to ensure that sufficient and effective audit procedures are performed and audit evidence obtained. The auditor must ensure that risk areas are revealed as early as possible in the planning process, and that each identified risk is appropriately reflected in the audit procedures planned.

b. Audit procedures should be designed based on the assessment of risk, and must consider the efficiency of an individual audit.

c. The audit procedures performed must be appropriately documented as evidence that the audit work has been carried out in accordance with generally accepted auditing standards.

61. The general requirements regarding performing the audit, as stated in GRS No. 1, are further detailed in specific standards, the most significant of which are the following:

a. GRS No. 4, *Planning the Audit*:

- The audit must be based on specific knowledge of the client. The auditor must obtain knowledge of specific laws and regulations that are applicable to the client's operations and industry that may have an impact on the audit. The planning of the audit must be based on knowledge of the client's internal control structure, accounting process, financial position, and future prospects.

- Based on an evaluation of the client's internal control, the auditor must determine the degree of audit assurance that can be obtained from relying on identified internal controls.
- Audit programs must be designed based on knowledge of the client. The audit programs must cover all significant audit areas and outline the audit steps to be performed as well as the scope of the audit.

b. GRS No. 13 (proposed), *Assessment of Risk*:

- The auditor must assess the risk of material errors and misstatements in the client's financial statements.

c. GRS No. 18 (proposed), *Determination of Planning Materiality:*

- As part of planning, the auditor must determine the tolerable amount of errors and misstatements in the financial statements based on what is material to the user of the statements.
- When concluding and reporting, the auditor must evaluate known and likely errors and misstatements and compare them with the established limit for materiality.

d. GRS No. 3, *Documentation of the Audit Work:*

- Audit documentation and workpapers must describe and support the planning decisions made and the audit steps planned.
- The workpapers must document the procedures performed and the results of the audit and must describe weaknesses, errors, or misstatements revealed during the audit.
- The audit workpapers must draw conclusions about the work performed and document the likely effects of the weaknesses, errors, and misstatements revealed. A total conclusion about the audit work performed must be documented, stating whether the financial statements as a whole fairly present the entity's financial position and results of operations.

Standards of Reporting

62. A number of the proposed and approved auditing standards require communication between the auditor and the client. The

most significant of these are the following:

a. GRS No. 1:

- If the scope of an audit is limited (as compared with a statutory audit), this fact must be clearly communicated to the client, as well as clearly stated in the auditor's report.
- If weaknesses in internal control are revealed during an audit and they may result in material misstatements in the financial statements or in irregularities, these weaknesses must be communicated in writing to the client's management through a letter of recommendation or a management letter.

b. GRS No. 11, *Auditor's Examination of Taxes and Fees*:

- If the audit procedures reveal errors or weaknesses in recording, calculating, summarizing, or paying taxes, such errors or weaknesses must be communicated to the client without delay.

c. GRS No. 15 (proposed), *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*:

- If, in the auditor's opinion, management does not take appropriate action in response to going-concern problems, the auditor must communicate his or her opinion to management and, if appropriate, disclose his or her concerns in the auditor's report.

63. The content of the auditor's report is regulated in the Joint-Stock Act and the Norwegian Audit Law, and is further discussed in GRS No. 8, *Content and Format of the Auditor's Report*, which was revised at the end of 1991. Although this new standard's current status is similar to that of a proposal, most accountants are using this new standard format.

64. The Joint-Stock Act and Norwegian Audit Law require the auditor's report to include the following: (*a*) a statement that the audit has been performed in accordance with generally accepted auditing standards and (*b*) a statement that the financial statements are prepared in accordance with the accounting regulations and generally accepted accounting principles.

65. The Joint-Stock Act lists as additional requirements (*a*) a statement that the financial statements as presented by the board of directors comply with the Act and (*b*) a statement that the board of directors' proposed allocation of profits (or proposal to cover a loss) complies with the Act.

66. Based on the circumstances involved, the auditor's report should also include the following:

- A discussion of transactions, events, or circumstances that are not disclosed elsewhere in the annual report and should be brought to the attention of the financial statement user
- A statement that the proposed financial statements should not be approved as the company's financial statements if this is the auditor's opinion
- Additional information if the auditor deems that the disclosures or the statements as presented do not fairly present the company's financial position or the results of operations

67. The Joint-Stock Act also requires that the audit report include (*a*) information on conditions that may result in liability for the managing director (or president) or members of the board of directors and (*b*) other information that the auditor deems appropriate to bring to the shareholders' attention.

68. The revised GRS No. 8 recommends that the required information in the auditor's report be stated in a standard format (see appendix C). Such a standard format is currently used in practice.

69. Departures from the standard format are limited to cases in which the auditor finds it necessary to include explanatory information, to qualify the opinion, or to disclaim an opinion on the annual report, the proposed distribution of the current year's net profits (as stated in the board-of-directors report), or both.

Differences Between Norwegian and U.S. Auditing Standards

70. The NSRF has issued auditing standards covering the various aspects of an audit.

71. Some of the most recent standards that have been proposed but not yet approved in Norway are the common practice of the profession.

72. The following areas that are covered in U.S. auditing standards are not covered by standards issued in Norway:

- *Obtaining audit evidence*—Although a separate standard does not exist pertaining to audit evidence, GRS No. 1 requires that, in addition to a reliance on internal control, substantive testing be performed. GRS No. 1 does not offer guidelines or requirements regarding the use of statistical or nonstatistical sampling. In practice, nonstatistical sampling methods are those most often used.

- *Analytical review*—A separate standard does not exist in Norway covering analytical review procedures used in an audit. As mentioned previously, substantive testing is required on every audit, but specific guidelines for performing analytical review procedures are not included in a standard.
- *Related party transactions*—A standard does not exist in Norway that requires disclosure of related party transactions.

73. These are three of the more significant items that are covered by U.S. generally accepted auditing standards but for which a Norwegian standard does not exist. Other differences between Norwegian and U.S. auditing standards do exist regarding segment information, inquiries of the client's legal counsel, written letters of representation by management (in Norway, such inquiries or representations may be made orally), and the use of the work of a specialist.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

74. Most of the Norwegian generally accepted accounting principles are set forth in the Norwegian Joint-Stock Act (applicable to limited companies issuing stock) and the Norwegian Accounting Law (Regnskapsloven) applicable to legal entities in general. In addition, a set of generally accepted accounting principles has been issued by the NSRF.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

75. The Norwegian Joint-Stock Act and Accounting Law prescribe a specific format for the presentation of financial statements and set forth the required related disclosures, as well as the requirements regarding the content and form of the annual report from a company's board of directors. In addition to these legal requirements, the accounting standards prescribe disclosures to the financial statements to some degree.

76. Financial statements are required to be presented in comparative form under generally accepted accounting standards.

Types of Statements Prepared

77. Financial statements prepared in conformity with generally accepted accounting principles consist of a balance sheet, an income statement, a statement of changes in financial position or of cash flow, and the annual report of the board of directors. Under Norwegian GAAP, a company can choose to use either a statement of changes in financial position or a cash flow statement. The determination is made by considering which of the two is more useful to financial statement users based on the nature of the company's business, its industry, and other similar factors. The majority of companies use the cash flow statement.

78. Companies whose shares of stock are sold or offered for sale to the public through the Oslo Stock Exchange are normally not required to file any additional statements. However, the Oslo Stock Exchange now requires that some disclosures that are not directly prescribed in the law be made to the financial statements.

79. These disclosures include more extensive information on related party transactions, segment information, information about use of financial instruments and off-balance-sheet risk, information on pension plans, information on equity per share, and so on.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

80. The content of generally accepted accounting principles in Norway is significantly influenced by U.S. accounting principles and International Accounting Standards Committee (IASC) pronouncements. Accordingly, Norwegian and U.S. accounting principles are somewhat similar. However, alternative accounting principles that are not acceptable in the United States have been adopted in Norway and are allowed under the Joint-Stock Act, the Accounting Law, and generally accepted accounting principles. In other instances, accounting principles that are required in the United States have not yet reached mandatory status in Norway or are in conflict with the accounting treatment prescribed in Norwegian law. Following is a brief description of the most signifi-

cant Norwegian accounting practices and how they differ from those in the United States.

Revaluation of Tangible Fixed Assets

81. Although tangible fixed assets are generally carried at cost in Norway, as they are in the United States, upward revaluation is permitted by law. The tangible fixed assets may be written up to market value less the contingent tax that would be payable on the notional capital gain, if such value materially exceeds book value. An independent appraisal of the market value is normally required, and the excess over book value must not be merely short-term or fluctuating. Intangible fixed assets cannot be revalued upward.

82. Although upward revaluations are permitted by Norwegian law, only a minority of companies are currently applying this practice. The Oslo Stock Exchange suggests that listed companies do not revalue their assets upward.

83. In Norway short-term investments are valued at the lower of cost or market value. The value of the whole portfolio may be taken into account when determining the lower of cost or market value. Long-term investments are normally carried at cost.

84. Tangible fixed assets and long-term investments must be written down as an extraordinary charge if their market values are significantly lower than their book values and if the lower value is not short-term.

Goodwill and Other Intangibles

85. Purchased goodwill may be capitalized and amortized over a maximum period of five years. The amortization period may be extended to twenty years based on the future benefit of the goodwill. Goodwill arising from consolidation is treated similarly.

86. Research and development costs may be capitalized and amortized over a maximum period of five years. Patents, trademarks, etc., should be amortized over their useful lives.

Foreign Currency Translation

87. Exchange gains and losses realized from foreign currency transactions should be recorded in the income statement for the period. Unrealized currency losses should also normally be recog-

nized in the income statement for the period. Unrealized gains should be deferred unless specific hedging strategies are applied.

88. When translating income statements from operations in foreign countries, the exchange rate at the date of the transaction (or weighted average) should be used. The balance sheet is translated into Norwegian kroner by applying the currency rate at the balance sheet date. Translation adjustments are reported in a separate component of stockholders' equity.

Consolidation

89. When a Norwegian company has control over another company, consolidated financial statements are required by the Joint-Stock Act. The consolidated financial statements must be prepared on the basis of Norwegian generally accepted accounting principles. Control is indicated by ownership share or voting power.

Business Combinations

90. Current tax regulations require that, in the books of the acquiring company, combinations be recorded by the pooling-of-interests method and the current value of the assets acquired or the consideration given is not considered. For this reason, the pooling-of-interests method is currently applied to situations in Norway that are purchases under the definitions in U.S. generally accepted accounting principles.

91. In consolidation, however, acquisition of another entity's shares is normally accounted for under the purchase method.

92. An exposure draft of an accounting standard that would change the current accounting practice for combinations has been issued, although any change in practice cannot be implemented unless the law is first amended (such an amendment has been proposed). The exposure draft suggests that requirements similar to those in the U.S. accounting standards must be met in order to apply the pooling-of-interests method. All other combinations would have to be accounted for as purchases.

Equity Method of Accounting for Investments

93. The equity method of accounting for investments is permitted, but not required, for consolidated financial statements. The

application of the equity method regarding ownership and influence is similar to that in the United States.

94. Shares in partnerships and limited partnerships are normally accounted for by using the equity method.

95. Material shares in partnerships and limited partnerships may also be proportionally consolidated, according to the percentage of ownership.

Leased Assets

96. Lessees currently considered as either capital leases or operating leases are accounted for in the same manner: all lease payments are charged directly to operating expense.

97. A new accounting standard regarding accounting for capital leases has been proposed whereby the lessee would record the acquisition of the asset at the present value of future lease payments, setting up an equivalent liability. Depreciation would be calculated and recorded as for other tangible assets, and finance expense would be charged to the income statement using the annuity method.

98. The implementation of this proposal, however, has been postponed because of legislative factors. A change in the tax law, and eventually in the Joint-Stock Act, is needed before mandatory implementation of the new accounting standard can take place.

Change in Accounting Principles and Prior-Period Adjustments

99. The effect of a change in accounting principles must normally be reported in the income statement as an extraordinary item. Accompanying information giving the reason for the change, a description of it, a report on its background, etc., should appear in the footnotes to the financial statements.

100. Prior-period adjustments must also be reported in the income statement. If material, the adjustment should be reported as a separately disclosed extraordinary item.

Inventory Valuation

101. Inventories are normally valued at the lower of cost or market value. Cost may be actual, average, or first in, first out (FIFO); last in, first out (LIFO) is not accepted.

102. There is currently no legal requirement to include overhead in cost, but for finished manufactured goods and goods in progress, an appropriate portion of manufacturing overhead may be included if the company wishes to do so. The comparison of cost with market is, in general, made for each inventory item. However, a comparison of groups of like products is also accepted.

103. An exposure draft of an accounting standard for inventory valuation has recently been issued by the NRS. The proposed standard requires overhead to be included in inventories, so that the inventory valuation reflects the full cost. Due to a 1991 change in the Norwegian tax law, most companies have already adopted this proposed standard for financial statement purposes.

Receivables

104. Receivables are valued at face value, less appropriate allowances for doubtful accounts. The allowance should be determined based on either a specific or an overall evaluation of the accounts, considering factors such as aging and any history of loss.

Deferred Income Tax

105. Providing for deferred income tax is neither required nor permitted under the Joint-Stock Act. Accordingly, the income statement only includes the current income tax payable.

106. The Norwegian government has passed tax reform legislation that results in significant changes in the tax system. The tax reform is effective as of January 1992 and results in an increased number of temporary differences.

107. A change to the Joint-Stock Act and the Accounting Law mandating the use of tax accounting for financial statements was approved in June 1992.

Pension Costs

108. Norwegian law does not require companies to accrue for future unfunded pension obligations. The pension liability, however, must be described in notes to the financial statements according to a Joint-Stock Act requirement dealing with pension costs. Generally accepted accounting standard (God Regnskapsskikk Uttalelse, or GRSU) No. 13, *Pension Accounting*, suggests the present value of the

future pension commitments to be calculated and recorded as a liability. However, this standard also accepts only disclosure of the pension obligations and calculated liability.

Interest Capitalization

109. Capitalization of interest is not separately addressed in the current accounting pronouncements in Norway, and the predominant practice is not to capitalize interest, since the financial statements are used as the basis for taxation.

Nonmonetary Transactions

110. Accounting for nonmonetary transactions on the basis of the fair market value of the assets involved is not explicitly required under Norwegian accounting pronouncements or by legislation. Current practice is influenced by tax regulations and varies depending on the situation.

Proposed Dividends

111. Distributions of proposed dividends are included in current liabilities in the balance sheet, and are shown as a proposal below the net-profit line on the income statement. The proposal must also be included in the board-of-directors report that must accompany the financial statements.

Long-Term Contracts

112. Long-term contracts are usually accounted for by the percentage-of-completion method. Profit is not recorded on a contract that contains significant risk. Any excepted loss should be recorded. The completed contract method is also allowed.

Other Matters

113. Current accounting pronouncements in Norway do not address the following items covered by U.S. accounting pronouncements:

- Disclosure of business segments
- Reporting accounting changes in interim financial statements
- Accounting and reporting by development-stage enterprises
- Accounting for certain marketable securities

- Accounting for forward exchange contracts
- Accounting for future contracts
- Reporting of earnings per share
- Disclosure of long-term obligations
- Revenue recognition
- Postretirement benefits

114. When resolving questions relating to the foregoing subjects, the U.S. or IASC accounting standards are generally referred to for guidance, particularly by listed companies. However, the use of U.S. GAAP or International Accounting Standards is not mandatory.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

115. The forms of business organization in Norway—corporation, partnership, and the sole proprietorship—are similar to those found in the United States.

Entities With Corporate Attributes

116. Corporations must be organized under the provisions of the Joint-Stock Act. As in the United States (and most other countries), a shareholder's liability is limited to the amount invested; the continuity of the business is assured regardless of the shareholder's death or changes in management or ownership. If the bylaws of the company do not contain any special provisions, the shares may be freely transferred.

Formation

117. To form a corporation, at least one founder must prepare the company's incorporation documents. Usually, at least half of the founders must have been Norwegian residents for at least two years.

118. The corporation's shares may be held by a single shareholder. The minimum share capital for a corporation is NOK 50,000, which must be fully subscribed for upon issue and paid within one year thereafter. Subscription can be in assets other than cash, but the valuation ascribed to the assets concerned must be verified by independent auditors.

119. The corporation comes into legal existence when the bylaws are accepted at the statutory shareholders meeting. However, the corporation cannot acquire rights against third parties before it has been registered at the Central Register of Commerce in Norway. No later than six months after the statutory shareholders meeting, the corporation must report to the Central Register of Commerce.

Shareholder Meetings

120. Ordinary shareholders meetings must be held once a year within six months from the end of the financial year (which is normally the calendar year). Extraordinary shareholders meetings are held whenever considered necessary by the board of directors, the corporate assembly, the committee of representatives, or their chairmen. The different bodies are explained below.

Management

121. Management is the responsibility of the board of directors, who are appointed by the shareholders. Board members must be individuals, and usually at least half of the board must have been Norwegian residents for at least two years. The board members need not be shareholders. If the share capital is NOK 1 million or more, the board must consist of at least three persons and a managing director (president) or chief executive (who need not be a member of the board) must be appointed. The president or chief executive must usually have been a Norwegian resident for at least two years. Corporations with 200 or more employees must usually appoint a "corporate assembly" to supervise the board of directors, and at least one-third of this assembly must consist of employees. In corporations with 50–199 employees, at least one-third of the board itself must consist of employees if a majority of the employees so require. In corporations with 30–49 employees, at least one board member must be an employee if two-thirds of the employees so require.

122. The bylaws of the corporation may provide that the corporation have a "committee of representatives" composed of at least three members. Members of the committee of representatives are elected at the general assembly. The committee shall issue an opinion to the shareholders meeting on whether the board's proposed income statement and balance sheet should be adopted.

Liabilities

123. When performing their duties, founders, board members, the president, members of the corporate assembly, and members of the committee of representatives are liable for any loss or damage that they intentionally or negligently have caused the company, a shareholder, or other persons. Liability may also be incurred by any shareholder who assists—intentionally or negligently—in causing such loss or damage.

Legal Reserve

124. Every corporation must establish a legal reserve. This reserve must be equal to at least 20 percent of the share capital. Until the reserve has reached the required size, the following must be allocated to it:

- An amount equivalent to 10 percent of the annual profit insofar as this profit is not used to cover losses from previous years that are not covered by the company's distributable reserves and retained earnings
- Amounts paid for subscribed shares in excess of their par value, less formation or capital increase costs

125. The legal reserve may only be used to (*a*) meet losses that cannot be covered by the company's distributable reserves and retained earnings or (*b*) provide for stock dividends (bonus issues). If, however, the legal reserve is larger than required, an amount of not more than one-fifth of the excess may be used for other purposes.

Partnership Entities

126. General limited partnerships are governed by the Partnership Act.

127. Both general and limited partnerships must register their partnership contract—together with the name of the firm, the names and addresses of the partners and of the members of the board (if any), the nature of the business, and the location of the main office or its legal address—with the Central Register of Commerce.

General Partnership

128. General partnership consists of at least two partners (individuals or corporations), and each partner's liability is unlimited. Normally, each partner is liable for the partnership's total debts, but the partners may agree that each partner's liability shall be limited to his, her, or its part of the total debt. Such an agreement will affect third parties only when this form of liability has been entered in the Central Register of Commerce. There is no legal requirement that partners in a general partnership have to make any capital contribution to the partnership.

Limited Partnership

129. A limited partnership consists of at least two parties (individuals or companies). At least one partner's liability must be unlimited.

130. A limited partnership shall have specific partnership capital. At least two-fifths of the partnership capital shall be maintained in the partnership and shall not be distributable to the partners. The unlimited partner shall contribute at least one-tenth of the partnership capital, own at least one-tenth of the partnership's net capital at any time, and receive at least one-tenth of the profit or loss. If the partnership has two or more unlimited partners, at least one of them must satisfy these conditions. The unlimited partner's participation may not be owned by several persons jointly. The unlimited partner(s) represent the partnership in third-party dealings and sign for it.

Branch of a Foreign Company

131. A foreign company duly incorporated under the laws of its own country may establish a Norwegian branch. Such a branch may have its own board of directors, but that is not legally mandated. The branch must register with the Central Register of Commerce and provide the following information: the name of the foreign company, the type of activity to be carried on, the location of the branch office(s), and, if appropriate, the names and addresses of the local board members. The branch must be labeled in business documents as a branch of the foreign limited company. Normally, branches will not be granted permission by the authorities to acquire real estate in Norway.

Sole Proprietor

132. A business may be carried on by an individual as a sole proprietor. The business must be registered with the Central Register of Commerce if it employs more than five persons or if the nature of the business is to sell merchandise purchased from other parties, regardless of the number of employees.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND FOR LISTING SECURITIES ON THE STOCK EXCHANGE

Registration Requirements for Public Sale

133. There are no special requirements regarding registration of securities offered for sale to the public by companies not listed on the Oslo Stock Exchange. However, if an unlisted company offers securities in excess of NOK 2 million for public sale, the prospectus information must be submitted to the Stock Exchange Council for review and approval.

Requirements for Listing Securities on the Stock Exchange

134. There is one major stock exchange in Norway, the Oslo Stock Exchange. The requirements for being listed are partly governed by law.

135. The following are the normal minimum requirements for listing shares:

- The corporation must have existed for at least one year.
- The share capital must be at least NOK 10 million.
- At least 200,000 shares must be issued, and there must be at least 500 shareholders.

136. In addition, shares in nonresident corporations cannot be listed without the Ministry of Finance's approval.

137. Bonds may only be listed if the total amount of the loan is at least NOK 25 million. The issue must be announced in the *Official Gazette* and in a newspaper. Approval by the Ministry of Finance is necessary if the loan is issued by a nonresident.

138. The procedure for listing is to file an application with the stock exchange's board. An application for listing shares must contain the following information:

- The share capital
- The par value of the shares
- The number of shareholders
- The amount of dividend distributions for the past two years
- Five copies of the corporation's bylaws
- Five copies of the financial statement for the past two years

139. An application for listing bonds must refer to the prospectus, which must be attached. The board of the stock exchange may require additional information if deemed necessary.

140. Corporations (or other entities that have issued bonds) are obliged to furnish the stock exchange with five copies of each year's financial statements. Any information that may have impact on the securities' market value (including decisions on dividend distributions, the issuance of shares, and the capitalization of reserves) must be furnished.

SELECTED ECONOMIC DATA

141. Key demographic and social factors, based on 1990 Norwegian census data (unless otherwise indicated), follow.

Area, not including Jan Mayen and Svalbard (in millions of square meters)	3.2
Population (in millions)	4.2
Annual population increase (based on 1988)	0.3%
Population under age 20	26.7%
Labor force (in millions)	2.2
Birthrate (per population of 1,000) (1989)	18.9%
Population graduated from university or similar level (1989)	15.7%

142. The major Norwegian trading partners, as of 1990, are as follows (excluding shipping services):

Country	Exports (NOK millions)	Imports (NOK millions)
United Kingdom	55,396	15,110
Sweden	24,572	26,493
Germany	23,578	24,076
United States	13,374	14,953
Denmark	10,247	11,226
Others	84,412	78,140
	211,579	169,998

143. Norwegian primary export and import products for 1990 and 1989 are as follows (excluding shipping services):

	Exports (NOK millions)	
	1990	1989
Crude oil, natural gas, and refined petroleum products	88,540	73,540
Metals, metal products, machinery, and equipment	58,951	53,389
Industrial chemicals and chemical and mineral products	20,769	18,753
Food, beverages, and tobacco	11,456	10,113
Paper and paper products	10,072	9,499
Agriculture, forestry, and fishing	4,954	4,752
Others	16,837	20,008
	211,579	190,054

	Imports (NOK millions)	
	1990	1989
Metals, metal products, machinery, and equipment	61,234	56,102
Industrial chemicals and chemical and mineral products	35,350	33,027
Ships	13,645	25,753
Textiles and wearing apparel	13,003	11,990
Transport equipment	11,757	7,938
Food, beverages, and tobacco	6,651	6,353
Agriculture, forestry, and fishing	5,054	5,462
Others	23,304	19,878
	169,998	166,503

TAXES

Principal Types

144. The principal taxes are the national income tax, municipal income tax, value-added tax, investment tax, national net-worth tax, and municipal net-worth tax.

145. Domestic corporations are currently taxed on their annual taxable income from worldwide sources at a rate of 28 percent. Branches of foreign corporations are taxed on their income from Norwegian sources at Norwegian corporate rates.

146. The dividend distributions of Norwegian corporations are not deductible when computing the basis for income tax. Dividends received by residents are not subject to income tax when distributed by Norwegian corporations. If the recipient is a nonresident, dividend distributions are subject to a 25-percent withholding tax. Tax treaties that Norway has entered into will normally reduce the rate to 15 percent.

147. Partnerships are not taxable entities. Each partner is taxed based on his or her part of the annual profit whether it is distributed or not. Nonresident partners are normally liable for Norwegian taxes provided that the partnership is a Norwegian business or has its effective management in Norway.

148. In 1992 individuals are liable for a municipal income tax of 28 percent on their annual income. In 1992 the maximum tax rate is 51.7 percent, including a so-called gross-income tax levied on gross employment income exceeding NOK 225,000. The basis for taxation of nonresidents is income from Norwegian sources, although some items are excluded.

Value-Added Tax

149. A value-added tax (VAT) is charged on the sale of most goods and some services and on the importation of goods. The rate is 20 percent. Certain items are zero-rated; this implies that no VAT will be payable but that the seller can claim a tax credit for VAT previously paid. The zero-rated items include exports as well as internationally transported goods.

150. Exempt items carry no credit for a VAT previously paid. Such items include banking services, services rendered by lawyers, and accounting services.

151. A nonresident enterprise selling goods and services in Norway subject to VAT must appoint a representative for VAT purposes if the enterprise does not have any branch office in Norway.

Investment Tax

152. Enterprises liable for VAT, other than manufacturing businesses, must pay an investment tax of 7 percent on almost all purchases of fixed assets and office supplies.

Net-Worth Tax

153. The 1992 national net-worth tax, which is levied on the net capital of nonresident corporations regarding their Norwegian based assets, has a rate of 0.3 percent. A municipal net-worth tax, usually levied at a rate of 0.3 percent, is charged on a nonresident corporation's Norwegian-based assets. Net assets are calculated based on the tax book value of assets less liabilities. Since the 1992 tax reform, no net-worth tax applies to resident corporations.

154. The national and municipal net-worth taxes are levied on the world-wide assets of Norwegian residents, except for real estate abroad. In the case of nonresident individuals, a tax is levied only on net assets located in Norway. The national tax is charged at progressive rates. The maximum national tax rate is 0.3 percent for 1992. The municipal net-worth tax rate for 1992 is 1 percent.

155. Effective January 1992, resident corporations are no longer liable for any net-worth tax. Due to nondiscrimination clauses in tax treaties, this will also often be the case for nonresident companies.

Tax Returns

156. A corporation's tax return must be filed by the end of February for the preceding accounting year, although normally an extension until March 31 may be obtained. The period for computing the liability for taxes is the accounting year, which normally must be the calendar year. A subsidiary or a branch of a nonresident

corporation will usually be permitted to adopt its parent's accounting year.

157. Individuals (residents as well as nonresidents) who own or manage a business must file their tax return by the end of February for the preceding accounting year (which will almost always be the calendar year). An extension until March 31 may normally be obtained. Other taxpayers have to file their tax return by January 31 of the year after the tax year (which will always be the calendar year). An extension may be granted.

158. Compulsory tax return forms are provided by the Tax Directorate. Several other forms accompanying the tax return are also compulsory. Guidelines for completing the forms are issued by the Tax Directorate.

APPENDIX A

Outstanding Auditing Pronouncements

The translated audit standards issued by the Norwegian Institute of State-Authorized Public Accountants (NSRF) as of July 1992 are as follows:

No.	Status	Title
1	approved	*Conceptual Framework for the Audit*
2	approved	*Inventories*
3	approved	*Documentation of the Audit Work*
4	approved	*Planning the Audit*
5	approved	*Receivables*
6	approved	*Fixed Assets*
7	approved	*Liabilities/Debt*
8	approved	*Content and Format of the Auditor's Report*
9	approved	*Internal Quality Control*
10	approved	*Reliance on the Audit Work Performed by Another Auditor*
11	approved	*Auditor's Examination of Taxes and Fees*
12	approved	*The Board of Directors' Report*
13	proposed	*Assessment of Risk*
14	proposed	*The Effect of an Internal Audit Function on the Scope of the Independent Audit*
15	proposed	*The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*
16	proposed	*Subsequent Events*
17	proposed	*Contingencies*
18	proposed	*Determination of Planning Materiality*
19	proposed	*Internal Control and Management Activities*

The standards listed above are not codified by the NSRF. The numbers listed are assigned to the standards for reference purposes in this booklet only, and the standards are listed in chronological order. Statement No. 8 regarding the auditor's report was originally issued in 1985. However, it was revised in 1991 and currently has the status of a proposed standard.

APPENDIX B

Outstanding Accounting Pronouncements

The translated accounting standards (referred to as GRSUs) issued by the Norwegian Institute of State-Authorized Public Accountants (NSRF) and standards (Norsk regnskaps stiftelse, referred to as NRSs) issued by the Norwegian Accounting Standards Board (NRS) as of July 1992 are as follows:

GRSUs:

No.	Title
0	*Basic Concepts for Norwegian Generally Accepted Accounting Principles*
1	*Statement of Changes in Financial Position and Statement of Cash Flow*
2	*Property, Plant and Equipment*
3	*Classification of Current and Noncurrent Items*
4	*Governmental Grants and Fees*
5	*Inventories*
6	*Fixed Assets—Writedowns to Fair Value*
7	*Fixed Assets—Upward Revaluations*
8	*Interim Reporting*
9	*Investments in General Partnerships and Limited Partnerships*
10	*Extraordinary Items*
11	*Receivables and Liabilities Denominated in Foreign Currency*
12	*Subordinated Loans/Capital*
13	*Pension Accounting*
14	*Research and Development Costs—Capitalization*
15	*Goodwill—Intangible Assets*
16	*Short-Term Receivables*
17	*Leases*

NRSs:

- *Extraordinary Items—Prior-Period Adjustments* (effective 1991 and replaces GRSU No. 10)
- *Inventories* (effective 1991 and replaces GRSU No. 5)

NRSs:	Title
•	*Long-Term Contracts—Work in Progress*
•	*Contingencies and Subsequent Events*
•	*Business Combinations*
•	*Investments in Associated Companies and Subsidiaries* (equity accounting)
•	*Pension Costs*
•	*Deferred Tax Accounting*

The standards referred to as GRSUs are codified by the NSRF. The new standards proposed by the NRS are not numbered.

APPENDIX C

Illustrative Auditor's Report and Financial Statements

The following translated financial statements are intended for illustrative purposes only. The statements presented are not intended to include all information that Norwegian law requires.

To the Annual Shareholders Meeting of ABC AS:

We have audited the annual report and accounts of ABC AS for 1992. The annual report and accounts—which comprise the income statement, the balance sheet, the cash flow statement, and the notes—are the responsibility of the Company's board of directors and its managing director.

Our responsibility is to express an opinion on the Company's annual report and accounts, its accounting records, and other related matters, based on our audit.

We conducted our audit in accordance with applicable laws, regulations, and Norwegian generally accepted auditing standards. We performed those audit procedures that we consider necessary to confirm that the annual report and accounts are free of material misstatements. In accordance with Norwegian generally accepted auditing standards, we have examined, on a test basis, the evidence supporting the amounts and disclosures in the annual report and accounts and assessed the accounting principles used and significant estimates made by management, as well as evaluated the overall content and the presentation of the annual report and accounts. To the extent required by Norwegian generally accepted auditing standards, we have reviewed the Company's internal control and the management of its financial affairs.

The allocation of the net profit, as proposed by the board of directors, is in accordance with the requirements of the Norwegian Joint-Stock Act.

In our opinion, the annual report and accounts, showing a profit for the year of NOK 16,532,000, have been prepared in accordance with the requirements of the Norwegian Joint-Stock Act and with Norwegian generally accepted accounting principles.

[Place, date]

[Signature]
State-Authorized Public Accountant (Norway)

Note: The "AS" following the company's name is an abbreviation for *aksjeselskap,* which means a company with limited liability (incorporated).

ABC AS INCOME STATEMENT
For the Years Ended December 31, 1992 and 1991
(in thousands of Norwegian kroner)

	Note	*1992*	*1991*
Operating Revenues and Costs:			
Sales revenues		195,300	170,100
Other operating income		600	200
Total operating revenues		195,900	170,300
Cost of raw materials, semi-manufactured goods, and goods purchased for resale	10	62,100	49,100
Payroll, social security, and pension costs	7	66,400	59,200
Other purchasing, manufacturing, selling, and administration costs		36,200	34,400
Depreciation expense	3	5,100	4,900
Amortization, research & development costs	5	200	200
Bad-debt expense	12	2,800	1,100
Total operating costs		172,800	148,900
Net operating profit		23,100	21,400
Financial Income and Expense:			
Dividends received		1,900	1,300
Share of profits in partnership	2	50	40
Interest income		200	200
Gain on foreign currency (realized)		350	660
Total financial income		2,500	2,200
Interest expense		3,300	3,300
Net financial expense		(800)	(1,100)
Net Profit Before Extraordinary Items:		22,300	20,300
Extraordinary items		0	(400)
Net Profit Before Tax:		22,300	19,900
Tax expense	13	5,768	6,398
Net profit		16,532	13,502
Proposed allocation of net profit:			
• Dividends		1,000	800
• Legal reserve		1,924	200
• Unrestricted equity		13,608	12,502
		16,532	13,502

ABC AS BALANCE SHEET
At December 31, 1992 and 1991
(in thousands of Norwegian kroner)

	Note	*1992*	*1991*
Current Assets:			
Cash and bank deposits		6,450	5,200
Short-term investments	1, 11	9,500	8,300
Accounts receivable	12	42,600	38,000
Other receivables	12	2,100	2,700
Inventory raw materials	10	5,600	4,700
Inventory goods in process	10	9,200	8,400
Inventory finished goods	10	20,200	17,300
Advances paid to suppliers		1,000	900
Total current assets		96,650	85,500
Noncurrent Assets:			
Investments	1, 11	16,100	8,900
Share in partnership	2	650	600
Long-term receivables	12, 13	5,500	6,340
Patents		400	400
Research and development costs	5	200	400
Machinery, fixtures, and fittings	3, 4, 6,	20,400	18,450
Buildings	3, 4	27,300	24,250
Land	3, 4	6,800	6,800
Total noncurrent assets		77,350	66,140
Total assets		174,000	151,640
Short-Term Liabilities:			
Bank overdraft		11,400	12,100
Accounts payable		5,280	3,500
Withheld payroll taxes, VAT, social security, and vacation accrual		13,800	13,100
Taxes payable	13	6,010	2,400
Prepayments from customers		2,800	2,200
Dividends proposed		1,000	800
Other short-term liabilities	7	15,640	14,440
Total short-term liabilities		55,930	48,540
Long-Term Liabilities:			
Mortgage loans	8	34,030	34,500
Other long-term liabilities	7	4,850	4,700
Deferred tax liability	13	6,114	6,356
		44,994	45,556
Total liabilities		100,924	94,096

	Note	1992	1991
Shareholders' Equity:			
Share capital			
(100,000 share par value 100)	9	10,000	10,000
Legal reserve		4,624	2,700
Total restricted equity		14,624	12,700
Unrestricted equity		58,452	44,844
Total equity		73,076	57,544
Total liabilities and shareholders' equity		174,000	151,640
Assets pledged	15	48,700	47,600
Guarantees	16	600	400

ABC AS CASH FLOW STATEMENT FOR 1992
(in thousands of Norwegian kroner)

	1992	*1991*
Operating Activities:		
Cash from operations (1)	20,832	(2)
Change in inventories, receivables, and payables	(5,480)	
Change in other accruals	5,568	
Net change in cash from operations	20,920	
Investing Activities:		
Additions to property, plant, and equipment	(11,200)	
Sales of property, plant, and equipment	800	
Change in other investments	(8,450)	
Net change in cash from investments	(18,850)	
Financing Activities:		
New loans obtained	200	
Payments on existing loans	(1,020)	
Net change in cash from financing	(820)	
Net cash flows	1,250	
Cash balance as of January 1	5,200	
Cash balance as of December 31	6,450	

(1) Profit before tax	22,300
Depreciation expense	5,100
Amortization expense	200
Tax expense	(5,768)
Dividends	(1,000)
Cash from operations	20,832

(2) Comparable numbers must be shown for the prior year (numbers not included in this example).

NOTES TO THE FINANCIAL STATEMENTS—1992

1. The Company's investments as of December 31, 1992 consist of shares held in the following corporations (all listed securities):

	Total Share-Capital (NOK millions)	*Number of Shares Held*	*Par Value*	*Book Value (NOK thousands)*
Current:				
AS XXX	20	1,000	1,000	6,500
AS YYY	25	20,000	2,000	3,000
				9,500
Noncurrent:				
AS ZZZ	100	40,000	4,000	6,500
AS XYZ	5	5,000	500	250
AS DEF	4	3,000	1,000	9,100
Other			100	250
				16,100

2. The Company holds a 25-percent investment in partnership X, which is the owner of an office building fully rented on long-term leases. The investment is recorded under the equity method, and the share of the partnership's equity as of December 31, 1992, is NOK 650,000. The share of the partnership's profits in 1992, NOK 50,000, is reported as financial income.

3. Property, plant, and equipment (in thousands of Norwegian kroner) are as follows:

	Machinery Fixtures, and Fittings	*Buildings*	*Land*	*Total*
Accumulated cost at 1/1/92	49,200	42,600	6,800	98,600
Additions at cost	6,000	5,200		11,200
Disposals at cost	(3,000)			(3,000)
Accumulated cost at 12/31/92	52,200	47,800	6,800	106,800
Accumulated depreciation	31,800	20,500		52,300
Book value 12/31/92	20,400	27,300	6,800	54,500
Depreciation expense	3,850	1,250		5,100

The depreciation expense is determined based on the estimated useful lives of the assets and calculated on a straight-line basis. Machinery, furniture, and fittings are depreciated by 8–20 percent per year, and buildings by 3–4 percent per year. The estimate of the useful life of machinery was changed in 1992, resulting in a reduction in depreciation from 13 percent to 12 percent per year. As a result of this change, the depreciation expense in 1992 is NOK 300,000 lower than if the previous plan had been followed this year.

4. Additions (at cost price) and disposals (at sales price) of property, plant, and equipment (in thousands of Norwegian kroner) during the last five years are as follows:

	Machinery, Furniture, and Fittings	*Buildings*	*Land*
1992:			
Additions	6,000	5,200	0
Disposals	800	0	0
1991:			
Additions	3,000	0	0
Disposals	1,000	0	0
1990:			
Additions	2,000	4,000	500
Disposals	200	0	0
1989:			
Additions	1,000	0	0
Disposals	500	0	0
1988:			
Additions	5,000	3,800	1,300
Disposals	1,000	1,000	0

5. Capitalized research and development costs recorded at NOK 200,000 as of 12/31/92 relate to a previous project for development of a new product. Direct materials, payroll expense, and a portion of research and development overhead were capitalized on the project. The amortization of the costs is on a straight-line basis over three years.

6. The Company entered into a lease agreement in 1988, leasing production machinery for a period of five years. The lease agreement includes a bargain-purchase option at the date of expiration in 1993. The lease is treated as a capital lease, and the machinery was originally capitalized at a cost of NOK 2 million. The annual lease payments per the agreement amount to NOK 500,000.

7. In addition to pension obligations covered under pension plans with an insurance company, the Company has an uncovered pension liability for six employees. The pension liability, determined according to the actuarial method (present value determined by applying the 8-percent

discount factor), amounts to NOK 4.8 million. A total of NOK 4.5 million is included in other long-term liabilities, while the remaining NOK 300,000 is shown as other short-term liabilities. When calculating the pension liability, a future increase in salary of 6 percent per annum was considered up to the retirement date for the six employees.

8. The Company has a long-term secured loan of NOK 4.5 million, giving the lender a right to convert the loan, partially or in full, to shares in the Company. Under the terms of the loan agreement, the right must be exercised after 1992 and before the loan's maturity in 1994, and, if exercised in full, gives the lender the right to receive 7,500 shares at a par value of NOK 100.

9. Of the Company's total share capital, NOK 1 million represents preferred shares, having the preferred right to a minimum annual dividend of 5 percent. Five preferred shares have the same voting power as one ordinary voting share.

10. Inventories are stated at the lower of cost or net realizable value. Costs are determined based on the first in, first out method, and realizable value reflects excess and obsolete items in the inventories. For manufactured finished goods, the cost price includes a portion of manufacturing overhead.

11. Investments (shares in other corporations) are recorded at the lower of cost or market value as of the balance sheet date.

12. Accounts receivables and other receivables are reported at nominal value, less an allowance for doubtful accounts.

13. Deferred income taxes are calculated based on the liability method by applying the enacted tax rate of 28 percent to accumulated temporary differences between balances per the financial statement and tax book values. The Company has provided more for losses on bad debt in the financial statements than what is deductible for tax purposes in 1992. The amount of NOK 1.2 million will become deductible for tax purposes upon realization of the loss in future years, and since future utilization of the deductible amount is considered probable, the amount has been offset against other temporary differences that form the basis for a deferred tax liability.

Deferred tax liability (in thousands of Norwegian kroner):

	1992	*1991*
Accumulated temporary differences at 12/31/92:		
Accelerated tax depreciation	15,755	17,100
Inventory—difference between tax and book	7,280	5,600
Allowance for bad debt—in excess of tax	(1,200)	0
Net accumulated temporary differences	21,835	22,700
Deferred tax liability—28%	6,114	6,356

Reconciliation of the 1992 net profit per the financial statement to net taxable income (in thousands of Norwegian kroner):

	1992	*1993*
Net profit before tax—1992		22,300
Permanent differences:		
Dividends received—not taxable		(1,900)
Nondeductible expenses		200
Temporary differences:		
Accelerated depreciation—reversing		1,345
Inventory, overheads—originating		(1,680)
Bad-debt allowance—deductible future year		1,200
Net taxable income		21,465
Tax expense per the income statement:		
Income tax payable; 28% of 21,465		6,010
Deferred tax liability—12/31/92	6,114	
Deferred tax liability—12/31/91	6,356	(242)
Tax expense per income statement		5,768

14. Loans granted to, and guarantees issued on behalf of, shareholders, members of the board, and the Company's president amount to a total of NOK 600,000 as of the balance sheet date.

The Company has given employees loans totaling NOK 500,000 as of 12/31/92.

15. The assets pledged (in thousands of Norwegian kroner) are as follows:

	1992	*1991*
Secured liabilities as of 12/31:	48,700	47,600
Book value of assets pledged:		
• Machinery and fixtures	10,100	11,200
• Buildings	23,800	22,450
• Land	6,800	6,800
	40,700	40,450

16. Guarantees are as follows:

	1992	*1991*
Guarantees (in thousands of Norwegian kroner) on behalf of employees	600	400

THE BOARD-OF-DIRECTORS REPORT

The Joint-Stock Act requires that the Company's annual report consist of an income statement and a balance sheet (including footnotes and disclosures), as well as a report from the board of directors.

The requirements as to the content of the board-of-directors report are outlined in Joint-Stock Act sec. 11-12 (for consolidated accounts, sec. 11-13,7).

Some requirements are fairly general: The board of directors must include in their report significant information on circumstances that are of importance when considering the company's financial position and the results of its operations, if such information is not presented elsewhere in the financial statements. Furthermore, the report must include information on other events or circumstances of importance to the company, including post-balance-sheet events.

The board-of-directors report must also include the following information:

- The number of employees at year-end
- The total remuneration to the following:
  - The president
  - The board of directors
  - The representative committee
- Fees paid to the auditors for audit services and for extended services/consulting
- For shareholders holding more than 20 percent of the issued stock:
  - The name of the shareholder
  - The number of shares held in the company
- The number of shares held by the following:
  - Each individual member of the board of directors
  - Each member of the representative committee
  - The president
- The board's proposal regarding allocation of the net profit for the year (or proposed action in regard to a net loss)
- If the company has accumulated losses in excess of two-thirds of the share capital, the board's comment on the matter, consideration of going concern, and justification of the basis for further operations
- For companies with more than ten employees, a discussion of the working environment within the company and an overview of eventual efforts to improve the environment
- A discussion of the company's impact on the external environment, any company operations polluting the environment, efforts made or planned to reduce pollution, and so forth

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States With Auditing Standards in Norway

General Information	Answer	Comments
1. Is a primary purpose of an audit—		
a. To attest to information used by investors, creditors, etc.?	Yes	
b. To satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. For tax purposes?	Yes	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of field-work, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards, which have been published in *Codification of Statements on Auditing Standards.* Do generally accepted auditing standards exist in Norway?	Yes	
B. If so, are they published?	Yes	

C. If auditing standards exist in Norway, are they similar to U.S. standards?	Yes				
D. If not, what are they?					
3. Who is responsible for promulgating auditing standards (for example, the profession, a government body, etc.)?					3. The Norwegian Institute of State-Authorized Public Accountants

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 331)	Yes. GRS 5	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes. GRS 2	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. GRS 12		✓		6. Written or oral representations may be received from management. Representations from the board of directors are in the board's report, which is included in the annual report. The president and board of directors are required by law to sign the statutory financial statement.

Notes:

Checklist was completed from the perspective of performing a local audit, *not* a referral audit.
AU numbers refer to sections in the *Codification of Statements on Auditing Standards*, unless otherwise noted.
This checklist does not include the latest GAAS pronouncements issued in the United States.
GRS = God revisjonsskikk (generally accepted auditing standards).

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes	✓			
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. GRS 3	✓			
B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes. GRS 3	✓			
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed? (AU 319)	Yes. GRS 4	✓			
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU 325)	Yes. GRS 1	✓			10A. Relatively few companies in Norway have an audit committee. If an audit committee does not exist, reportable conditions are communicated to management or the board of directors.
B. If so, is the communication documented? (AU 325)	Yes. GRS 1	✓			
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	No	✓			11. Nonstatistical methods are used in most cases. Statistical methods are used when relevant.
12. Is the auditor responsible for designing the audit to provide	Yes. GRS 1 and GRS 18	✓			

reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU 316)				
13. A. Does the auditor perform procedures to identify related-party transactions and their effects on the financial statements? (AU 334)	No	✓		
B. If so, list the procedures.				
14. Does the auditor consider the adequacy of cut-off procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	Yes. GRS 2	✓		
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes. GRS 16		✓	
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes. GRS 16		✓	
16. The concept of "joint auditors" in certain countries (e.g., the United Kingdom, Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the United States. Does the concept of "joint auditors" exist in Norway?	No			✓

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU 543)					
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	Yes. GRS 10	✓			
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No			✓	
18. A. Is there a standard form of auditor's report? (AU 508)	Yes. GRS 8	✓			
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)					18B. The following circumstances result in a departure from the standard report: *a.* The auditor is unable to verify that the minimum requirements are met regarding information included in the annual report. (Such situations generally result in a qualified report.) *b.* The auditor believes that certain information is lacking or omitted. (Explanatory

				paragraphs are added to the standard report.)
19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU 508)	No		✓	19A, B. Changes in accounting principles are included in the notes to the financial statements.
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	Yes. GRS 8	✓		
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)	No		✓	20A, B. The auditor's report must be dated after the date of the board-of-directors report (since the board's report is included in the scope of the auditor's report).
B. If not, what date is used?				
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as not having a financial interest in or connection with the client. (Code of Professional Conduct, Rule 101 and its interpretations)	Yes. GRS 1	✓		
22. Please describe any standards in Norway for which there are no corresponding U.S. standards.				22. The standard for audits of taxes.

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States With Accounting Principles in Norway

General Information	Answer	Comments
1. Are there generally accepted accounting principles in Norway? If so, are they codified?	Yes	
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?		2. The Norwegian Accounting Standards Board

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical-cost basis?	Yes. JSA sec. 11-10	✓			
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended	No		✓		

use are in progress, capitalized as part of the historical cost of an asset? (I67)				
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. JSA sec. 11-10		✓	5A. Upward revaluation is permitted for fixed assets but is not required. Amounts written up are restricted. See paragraph 81 of text.
B. If so, define the basis.				5B. Fixed tangible assets may be revalued to market value if appraised independently, assuming that the higher value is of a long-term nature.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair-market value of the assets involved when that value is determined within reasonable limits? (N35)	No		✓	
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. GRSU 0	✓		

Notes:

References in the U.S. Generally Accepted Accounting Principles column are to sections in the *FASB Current Text*, unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.
JSA refers to the Joint-Stock Act.
GRSU – God regnskapsskikk uttalelse (generally accepted accounting standards).

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. GRSU 0	✓			
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. JSA secs. 1-2, 11-1, and 11-13	✓			
B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	Yes. JSA sec. 1-2	✓			
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51) B. If so, list them.	No		✓		10A, B. Only insignificant or dormant entities would be omitted from consolidation when control is present.
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. JSA sec. 11-13	✓			
12. Are there two methods of accounting for business combinations – the pooling-of-interests method and the purchase method? (B50)	Yes	✓			

13. Is the method used to account for a business combination disclosed? (B50)	Yes	✓	
14. A. Do criteria exist for treatment of business combinations as a pooling of interests? (B50)	Yes	✓	
B. If so, list the criteria.			14B. All of the following criteria must be met for a business combination to be accounted for as a pooling of interests: *a.* The combination must be completed as a single transaction or in accordance with a specific plan. *b.* At least 80 percent of the consideration received by the purchased company's owners must consist of voting common stock. *c.* The material segments of the two companies' operations must continue after the combination. *d.* Each of the stockholder groups in the two companies must receive at least one-third of the voting common stock. *e.* In consolidation, the parent company must, after the combination, own at least 90 percent of the voting common stock in the subsidiary.
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes	✓			15B. See paragraph 85 of text.
16. Are the following disclosures made for related-party transactions: (R36)					16. The Oslo Stock Exchange requires such disclosures for listed companies.
a. The nature of the relationship?	No		✓		
b. A description of the transactions for the periods presented?	No		✓		
c. The amounts of the transactions for the periods presented?	No		✓		
d. The amounts due to or from related parties at the balance-sheet date?	No		✓		
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes	✓			
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes	✓			

19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? [In the United States, guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.] (C59)	Yes. JSA secs. 11-5 and 11-8	✓		
20. Are the following items disclosed in a public enterprise's financial statements for each industry segment: (S20)				20. Companies listed on the Oslo Stock Exchange disclose financial segment information according to specific exchange guidelines. Enterprises not listed on the exchange normally do not disclose segment information.
a. Sales to outsiders and intersegment sales?	No	✓		
b. Operating profit or loss?	No	✓		
c. Identifiable assets and related depreciation, depletion, and amortization expense?	No		✓	
d. Capital expenditures?	No	✓		
e. Equity in net income and net assets of unconsolidated subsidiaries and other investees?	No		✓	
f. Effect of a change in accounting principle?	No		✓	
21. A. Are there any requirements or recommendations to disclose the effects of inflation? (C28)	No		✓	
B. If so, list the disclosures required.				
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. JSA sec. 11-6	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes. GRSU 3	✓			
B. If not, how are noncurrent assets defined?					
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes	✓			
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?					24B. The allowance is calculated based on aging and loss history.
25. Are receivables and payables not arising in the normal course of business or subject to normal trade terms, recorded at an amount that takes imputed interest into account? (I69)	No		✓		
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes	✓			
B. If not, how is inventory stated?					
C. Is the basis disclosed?	Yes	✓			
27. Does cost for inventory purposes include: (I78)					27. The Joint-Stock Act permits valuation at full cost (direct and indirect manufacturing cost, including appropriate overhead), whereas tax legislation accepts direct production cost. For this reason, the method used varies
a. Materials?	Yes	✓			
b. Direct labor?	Yes	✓			
c. Factory overhead?	Yes	✓			

d. If the answer to *c* is yes, is an allocable share of all factory overhead included?	Yes	✓			in practice. The NRS recently issued an exposure draft for inventory valuation, suggesting that full cost be the only acceptable valuation used for financial statement purposes.
28. A. Are the following cost methods permitted for reporting purposes: (I78)					
a. First in, first out (FIFO)?	Yes	✓			
b. Last in, first out (LIFO)?	No			✓	
c. Average cost?	Yes		✓		28*c.* Average cost is accepted as an approximation of FIFO.
B. Are the same methods permitted for tax purposes?	Yes	✓			
29. Is the inventory costing method used disclosed? (I78)	Yes	✓			
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. JSA sec. 11-10 and GRSU 2	✓			30A. Predominant practice is use of the straight-line method.
B. If so, is an accumulated depreciation account used?	Yes	✓			
31. Are disclosures made of—(D40)					
a. Depreciation expenses for the period?	Yes. JSA sec. 11-8,3	✓			
b. Balances of major classes of depreciable assets?	Yes	✓			
c. The methods used to compute depreciation for the major asset classes?	Yes	✓			

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
d. Accumulated depreciation, either by major class of assets or in total?	Yes	✓			
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. GRSU 17		✓		
B. If so, list the criteria and disclosure requirements.					32B. See paragraphs 96 through 98 of text.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. GRSU 17		✓		
B. If so, list the criteria, type of lease, and disclosure requirements.					33B. GRSU 17 classifies leases as financing arrangements (capital leases) when one of the following criteria is met: • The lease period covers a significant portion (normally 75 percent or more) of the leased assets' remaining useful life. • The present value of the minimum lease payments, including prepayments, equals 90 percent or more of the leased assets' cost at the time of entering the lease agreement. (The present value is determined by applying the effective interest rate per the lease agreement.) • The lease agreement gives the lessee an option to purchase

the leased asset at a price significantly lower than market value.

- The leased asset is included in the lessee's fixed assets in such a manner that the cost of transferring the asset back to the lessor will exceed the market value.
- Other factors exist providing evidence that it is likely that the lessee will obtain ownership of the leased asset during the period of the lease agreement or later.

Leases not meeting one of the foregoing criteria are classified as operating leases.

Because of tax implications, GRSU 17 is presently applied only by a minority of Norwegian enterprises. Most leases are thus treated as operating.

34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. GRSU 3	✓	
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	Yes. GRSU 3	✓	
B. If not, how are noncurrent liabilities defined?			

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
36. For notes payable, is disclosure made of—(C32)					
a. Interest rates?	No			✓	
b. Maturities?	No			✓	
c. Assets pledged as collateral?	Yes	✓			
d. Covenants to reduce debt?	No			✓	
e. Minimum working capital requirements?	No			✓	
f. Dividend restrictions?	No			✓	
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	Yes	✓			37A, B. Both methods are allowed, and a company can choose whichever method it deems appropriate.
B. If so, what are the criteria for determining the method to be used?					
38. A. Are research costs charged to expense when incurred? (R50)	No. JSA sec. 11-11	✓			38A, B. Research and development costs may be capitalized if there is future benefit and they represent increased value to the entity. The basis for capitalization must be disclosed. However, the majority of companies expense research and development costs when incurred.
B. Are such costs disclosed?	Yes	✓			
39. A. Are development costs charged to expense when incurred? (R50)	No	✓			39A, B. See comment to question 38.
B. Are such costs disclosed?	Yes. JSA sec. 11-8.5	✓			

40. A. In the United States, events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in Norway? (I17)	Yes	✓		
B. If not, what are the criteria?				
41. Are material events or transactions that are unusual in nature or expected to occur infrequently, but not both (and thus do not meet the criteria for classification as extraordinary), shown as a separate component of income or expense? (I22)	No		✓	41. Some enterprises present unusual items as a separate component of income or expense. Otherwise, information about unusual items is frequently given in footnotes.
42. Are disclosures required for—				
a. Extraordinary items? (I17)	Yes. JSA sec. 11-5	✓		
b. Material events or transactions not classified as extraordinary items? (I22)	Yes	✓		
c. Disposal of a segment of a business? (I13)	No	✓		42*c.* The Oslo Stock Exchange requires this information for listed companies.
43. A. Are pension costs provided for covered employees over the term of employment? (P16)	No		✓	43A. GRSU 13, *Pension Accounting*, states that the preferable treatment is to provide for pension costs. However, disclosure only is also accepted.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, do they include charges for costs assigned under the actuarial method used for years prior to the plan's inception?					
44. A. Are specific disclosures required relating to pension plans? (P16)	Yes. JSA sec. 11-8,8 and GRSU 13	✓			
B. If so, list them.					44B. The statements should disclose— • A description of the pension plan. • The number of employees covered under the plan. • The factors involved in calculating the pension liability. • Any changes in assumptions.
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I25)	Yes	✓			45A. See paragraphs 105 through 107 of text.
B. If so, are deferred taxes provided for all temporary differences (as opposed to only those meeting certain criteria)?	Yes	✓			
46. A. Are deferred taxes determined on the basis of current tax rates? (I25)	Yes	✓			

B. If not, on what basis?

47. A. Is specific information related to income taxes required to be disclosed? (I25) — Yes ✓

B. If so, list the requirements.

47B. The statement should disclose—

- The reconciliation of net profit before tax and net taxable income, specifying permanent and temporary differences.
- The basis for deferred tax calculation and the rate used.
- The nature of temporary differences and justification for the right to offset future deductibles/loss carryforwards, as well as the basis for recognizing deferred tax assets.
- The breakdown of tax expense per income statement on current and deferred taxes.
- The allocation of recorded tax expense related to Norwegian and foreign operations.
- The allocation of tax effects between ordinary and extraordinary items.
- The effect of changes in tax legislation on the current year's tax expense.
- The tax effects of items recorded directly to equity.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
					• The treatment of deferred taxes on consolidated profits and recorded share of profits/losses from equity investees. The disclosure requirements for companies listed on the stock exchange are, in general, more extensive. Such companies also need to disclose, at a minimum, the temporary differences relating to current assets and current liabilities.
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I25) B. If so, are the tax effects of a loss carryback included in the income in the period?	No			✓	48A. Only when a company is closed or liquidated can a tax loss be carried back to the last two years prior to the liquidation year.
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I25)	Yes	✓			49A. Tax losses can be carried forward for ten years.
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	Yes	✓			
50. Are financial statements of a foreign entity prepared for consolidation purposes measured	No	✓			

in the currency of the primary economic environment in which the entity operates? (F60)				
51. Are all elements of financial statements translated at a current exchange rate? (F60)	No	✓		51. The balance sheet is translated at current exchange rates, while the income statement normally is translated at a weighted average exchange rate.
52. A. Are translation adjustments reported separately? (F60)	Yes	✓		52A, B. Translation adjustments are reported as a separate component in stockholders' equity. This treatment is required for entities listed on the Oslo Stock Exchange, and is also applied by the majority of other entities.
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes	✓		
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	No		✓	
53. A. Are gains and losses resulting from transactions denominated in a currency other than that of the primary economic environment in which the entity operates included in determining net income for the period in which the exchange rate changes? (F60)	No	✓		
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	No		✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	No	✓			
55. What information is disclosed about foreign currency restrictions? (F60)	See Comment				55. No foreign currency restrictions apply in Norway.
56. Are significant events arising subsequent to the balance-sheet date reflected in the financial statements or notes thereto? (C59)	Yes	✓			
57. Please list any standards for Norway for which there are no corresponding U.S. standards.					57. None.

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