RESTATING THE OBVIOUS

Accounting Restatements: Evidence from Swedish Private Firms

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ABSTRACT

ACCOUNTING RESTATEMENTS as a phenomenon has increased in financial reporting over the last decades. Although there is ample research on listed firm restatements, existing literature has largely overlooked private firms. Thus, the purpose of this study is to examine what types of firms restate and why firms restate in a Swedish private setting. To understand what type of firms restate, we collect data from 2014 for 624 firms that restated (and 291,028 firms that did not), and find that restating firms, to a large extent in line with prior findings, are less often audited, younger, and financially distressed. We further demonstrate that contextual differences affect what type of firms restate by showing that debt structures, growth and profitability differ from prior research. We then investigate why firms restate by reissuing a new financial report, despite the administrative guidance under the K2 and K3 standards. We conduct 40 interviews with firms restating in 2021 and show that firms perceive that the benefits of restating outweigh the consequences, with the main motives attributed to avoiding tangible consequences, damaging outside perception or low organizational knowledge. We also find that several firms are not aware of the guidance not to reissue reports. Further, we operationalize our interview findings and find that, on an aggregated level, high financial proficiency, and avoiding tangible consequences, are associated with a higher likelihood of restatements. Overall, we contend that our findings highlight current deficiencies in the reporting standards and their enforcement, and adds a new perspective to the discussion, interpretation and implementation of reporting regulation and are thus of interest for researchers, regulators, and practitioners alike.

Keywords: Accounting Restatements, Private Firm Behavior, Financial Reporting Disclosure, Regulatory Standards

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1 Introduction

For private firms, financial reporting decisions play a central role in the communication with external stakeholders. However, since interest from the public is limited and owners have more direct insight on performance, private firms are not burdened to the same extent as listed firms to report high accounting quality and reporting continuity. Instead, private firms are more incentivized to only report their financial performance in a way that is either cost efficient or that benefits their relationship with external stakeholders. To expand on this, we analyze the perspective of the role accounting restatements play in the tension that emerges between regulatory standards and financial reporting behavior. In this paper, accounting restatements refer to the act of reissuing a financial statement to amend an already submitted financial report, which in the absence of proper enforcement could be utilized. Prior research, largely focused on public firm restatements, finds that the motives to issue restatements often derive from regulatory requirements and result in palpable consequences for the restatement firms (Dechow et al., 1996; Hribar & Jenkins, 2004; Palmrose et al., 2004). For private firms in Sweden operating under the K2 and K3 reporting standards, however, reissuing financial reports contradicts the administrative guidance, meaning that firms should not reissuing a new report. In this study, we examine what type of firms negate the Swedish guidelines on the treatment of restatements and why they do so despite evidence suggesting negative consequences.

More explicitly, our paper intends to expand the extant knowledge of accounting restatements. The first part of our paper sets out to understand what type of firms restate and aims to connect the Swedish context with adjacent research for both private and listed firms. By looking at data for Swedish private firms, we aim to determine characteristics for restatement firms and provide insight into the understanding of private firms. In the second part of this paper, we aim to expand the understanding of why firms restate. Since restating an error by reissuing an old report goes against the guidance from Swedish authorities and the generally accepted accounting practices, it is of particular interest to examine why firms still choose to restate. In this sense the Swedish context offers an interesting empirical setting where we can further the understanding of how financial reporting regulation and enforcement affect firm behavior. In summary, the purpose of this paper is to understand:

(1) what type of firms restate, and;
(2) why firms restate

Our paper is motivated by the discrepancy between rich research on listed firm restatements and relatively nascent focus on private firms. Research, largely focused on listed firms, shows that there are specific types of firms that restate, e.g., firms characterized as fast-growing, young, unaudited, or financially distressed firms are more likely to restate (e.g., Gunny et al., 2007; Stanley & DeZoort, 2007; Clatworthy & Peel, 2013). Since our study concentrates on the private setting, Clatworthy and Peel's (2013) findings on the UK private setting are of significant relevance in this paper. In line with prior literature, we posit to find similar characteristics in the types of firms that restate. Additionally, prior research observes that the act of restatements creates a negative signaling effect, leading to for instance reduced reputation, deteriorating credit rating and increased cost of capital (Hribar & Jenkins, 2004; Gleason et al., 2008; Park & Wu, 2009). We further provide an overview of the institutional background for Swedish private firms and restatements in a Swedish context. BFN (2021b; 2021c) states that firms under K2 or K3 should avoid restating by resubmitting a new report for an old period. Nevertheless, some private firms in Sweden still choose to restate their reports, despite the guidance not to. Thus, although the understanding of what type of firms restate has been explored, we posit that the differences in accounting regimes affect the implications of why firms restate.

To answer this paper's two research questions, we construct two different samples with accompanying models. The reason for including two samples is to ensure high data quality and availability. To understand what type of firms restate we collect financial information from 2013 for 624 (291,028) restatement (non-restatement) firms. We then apply a multivariate logit model with research variables derived from existing literature on restatements. To understand why firms restate we conduct 40 interviews with firms that restated in 2021. We then attempt to operationalize the interview findings in a second multivariate regression model to verify if there are statistical differences between the restatement- and non-restatement firms motivating why firms choose to restate.

Overall, this paper contributes to the understanding of private firm behavior with particular focus on exploring private firm restatements. Firstly, our study sheds light and adds new perspectives to the accounting literature on private firms. Much of the empirical work in accounting seeks to provide research for public firms. However, despite not being the center of academic research, private firms are a cornerstone in the overall economy, constituting 99.81% of all firms in Europe, 61.8% of the total workforce, and 42.8% of the aggregated corporate assets[1] (Beuselinck et al., 2021). Existing research shows that when lack of disclosure enforcement or regulatory ambiguity exists, private firms rather pursue behavior reducing or avoiding disclosure costs (Laschewski and Nasev, 2021). We contribute to this section of the private firm literature and find that private firms utilize regulatory ambiguity and weak enforcements, as the case for Swedish private firms not fully meeting the administrative guidance according to K2 and K3. In addition, we contribute with proprietary data describing the private firm restatement process, including the initiators, the role of the auditor, and types of restatements. Altogether, these findings add a new perspective to existing private firm literature by exemplifying how firms interpret and apply reporting guidance.

Secondly, our work adds to the literature on restatements in exploring what type of firms restate their financial reports. Our findings are predominantly consistent with prior literature. By showing that firms that are less audited, younger, and financially distressed are more likely to restate their financial reports, we corroborate Clatworthy and Peel's (2013; 2021) findings and add a second point of reference for private firm restatements. Additionally, by showing that access to and type of debt for private restatement firms differ between institutional contexts we put forward the inference that certain financial characteristics diverge in the private setting. On the same note, by showing that private restatement firms are associated with high growth and profitability, contrary to what has been seen in listed firms (Kinney and McDaniel, 1989; Scholz, 2008), we further demonstrate that contextual differences affect what type of firms restate. We also extend the literature by investigating the interplay between the type of restatement and firm characteristics, showing that material restatements are more systematically associated with restatement firm characteristics.

Thirdly, having shown that firms restate despite the guidance not to, we provide novel findings of restatements in private firms. While it may seem obvious that firms make choices that benefit themselves, the fact that firms negate reporting guidance highlights an interesting perspective of private firm reporting behavior and constitutes our third contribution. Our results suggest that motives behind the restatements are associated with mitigating unwanted outcomes caused by the initial error, including avoiding tangible consequences, damaging outside perception or low organizational knowledge. We further operationalize and generalize our interview findings and find that, when controlling for accounting quality, organizational knowledge is positively correlated with restatements, indicating that financial proficiency is associated with a higher likelihood

[1] In 2019.

of reissuing financial reports, possibly because they are aware of the relative advantages of restating. The motive to avoid tangible consequences is positively correlated with restatements, since some firms are forced to restate in the current period to e.g., be assigned a credit rating or avoid bankruptcy. These results reinforce parts of our interview findings by showing that several of the non-financial differences, capturing the motives to restate, are to a larger degree associated with firms that restate. Firms deeming the act of restatement to be net positive despite going against the guidance, in combination with the lack of knowledge of the regulatory standards from various firms, suggest ambiguity and deficiencies in the current system. Lastly, if firms' decision to restate is motivated, despite violating generally good accounting principles, the findings are likely to be of interest for government agencies and policy makers in dealing with restatements, for firms when making financial reporting decisions and for credit agencies and banks in making credit assessments for private firms.

The remainder of this paper is structured in the following way. Section *2 Institutional Background* provides our definition of accounting restatement and gives an overview of accounting restatements in a Swedish context. This section is of considerable importance since it lays out the specific context that Swedish private firms are part of. Thereafter, we set out to discuss prior research within the field in section *3 Literature Review*, outlining common firm characteristics, motives, and research proposition. In section *4 Data Sources & Research Design* we include the sample selection, data processing as well as the methodology of this paper, and with section *5 Results & Analyses* we present the descriptive statistics, the statistical tests, and analyses of our findings. Lastly, *Section 6* offers our concluding discussion as well as limitations and suggestions for future research.

2 Institutional Background

2.1 Definition of Accounting Restatements

An accounting restatement is the act of correcting an error that is found in a previously issued financial report. However, the treatment of restatements differs depending on the accounting regime. Certain regimes argue that the firm should amend the error in the subsequent report, while others state that the firm should amend the error as it is noticed and resubmit a new report for the period containing the error. Some regimes stipulate that firms should only restate material errors, while others also include immaterial errors (Audit Analytics, 2022). The definition of material errors is equivocal, but according to IFRS, a material error is defined as *"if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statement"* (IASB, 2020). Against this background, we define accounting restatements as the following:

ACCOUNTING RESTATEMENTS is when an accounting error leads to the reissuing of a new financial report i.e., when the firm resubmits a new amended report for the period containing the error, replacing the previous report.

Thus, we do not define restatements as when the adjustment occurs in a subsequent report. In our definition of restatements, we include both material changes, which are changes in financial figures in income statement or balance sheet or missing information that substantially affect the perception of the firm, and immaterial changes, which are rounding errors, miscellaneous errors or administrative issues related to the filing[2]. Amending an already submitted report following changes in accounting practice does not fall under our definition of restatement.

2.2 Accounting Restatements in a Swedish Private Context

Bokföringsnämnden (BFN) (BFN, 2021a) comments on restatements and advises accounting practices on how to resolve issues with amending accounts. BFN, K3 cl. 10.12, states that if a material error occurs after submitting the report under the K3 regime, the firm must make the correction in the report that is to be submitted immediately after the

[2] Administrative issues related to the filing are when Bolagsverket requests the company to add missing sections that are lost in the administration and submission of the report. Thus, this type of amendment is not included in the general definition of restatements. Nonetheless, restatements due to administrative issues related to the filing are included in our data, hence part of this study's definition of accounting restatement.

error was detected, i.e., in the coming report (BFN, 2021b). These corrections include comparable figures from the previous year or recalculation of the opening balance of the assets, equity, and liabilities. Similarly to the K3 standard, firms reporting under K2 must according to K2 cl. 2.12 correct the error in the subsequent report after the error was detected, however comparable figures are not obliged to be corrected in the financial report submitted for the next year[3] (BFN, 2021c). With these regulations in mind, reissuing an already filed report i.e., the type of accounting restatements included in our paper, contradicts BFN's administrative guidance under the K2 and K3[4]. Noteworthy, since this study only takes into account restatements when reissuing a report, we do not consider restatements that follow the K2 and K3 guidance i.e., amending an error in a subsequent report.

Bolagsverket, the Swedish Companies Registration Office, is the Swedish government agency that collects, stores and registers changes of financial reports of firms in Sweden (Bolagsverket, 2021a). In Sweden, all companies regardless of size must file their annual reports to Bolagsverket each year, within seven months after the end of the firm's fiscal year (Bolagsverket, 2021a). After submitting the annual report to Bolagsverket, the government agency confirms that all necessary sections are included[5]. If these requirements are not fulfilled, Bolagsverket will request the company to amend the report[6], and if not handled in time, the firm is required to pay a late filing penalty. In addition, Bolagsverket does not certify that the figures are correct, and despite restatements technically being permitted by Bolagsverket, they consider it to contravene generally accepted accounting principles to restate an already filed account, in line with K2 and K3 (Bolagsverket, 2021a). This lack of consistency in the way of handling restatements in Sweden for private firms displays an interesting knowledge gap relevant to assess further.

In Swedish firms, the board is personally responsible for ensuring that the financial reporting is managed correctly, which e.g., means that they need to ensure that the accounting is controlled in a reassuring manner (ÅRL, 1995). However if, after filing, the

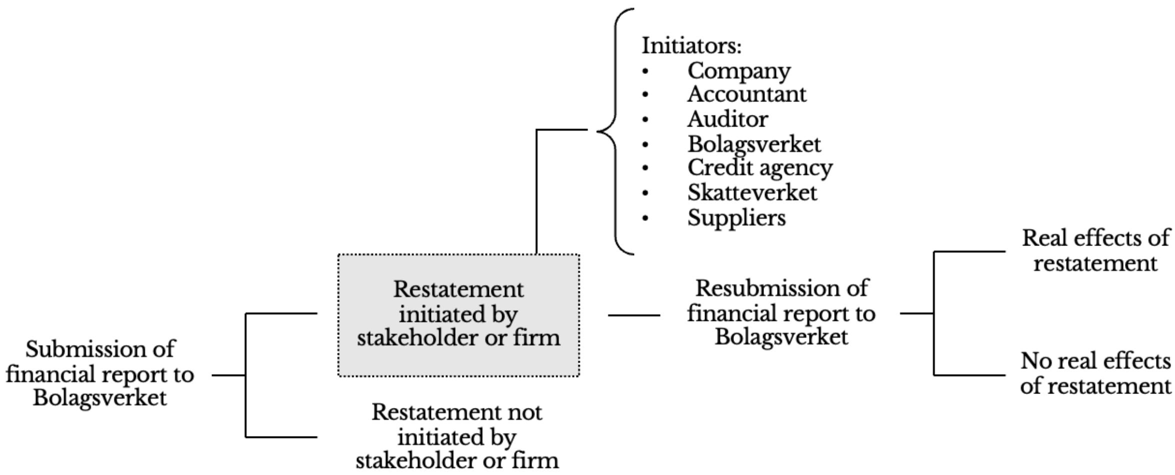
[3] According to ch. 3. § 5 ÅRL, the firm must also state the lack of comparability in the notes if the correction means that classification, valuation or split of financial items in the statements changes.
[4] BFN's comments on restatements are demarcated as administrative guidance (*Allmänna Råd*). An administrative guidance is not legally binding but is a strict recommendation from BFN. For firms to comply with the K2 and K3 standards, the board of directors need to certify that the guidance is followed when signing off on the annual report.
[5] Director's Report, income statement, balance sheet, notes, signatures from the board of directors and CEO, and the Financial statements approval (Bolagsverket, 2019).
[6] In accordance with our definition of restatements, resubmitting a report in response to a request from Bolagsverket due to missing sections counts as a restatement.

companies identify errors in their reported documents that they want to amend, they are required to submit a written request ("följebrev") to Bolagsverket stating what they want to change and why, alongside the restated annual report[7]. Once an error has been detected, it is up to the board in a general meeting, together with auditor approval if they are audited, to decide if it is doable to establish new financial report, and later to submit the written request together with the amended report for registration and publication (Bolagsverket, 2021a).

Figure 1

Overview of the Accounting Restatement Process

Figure 1 illustrates the restatement process as well as the research questions for this study. A company submits the financial report to Bolagsverket and if the report contains an error, the firm chooses either to restate or not to. The first research question is to understand what type of firms restate. Despite the administrative guidance not to restate, Bolagsverket still allows it, causing some firms to restate while some abstain from it. This implies a conversion factor between the error occurring, and the firm deciding to restate. Depending on the initiator of the restatement, and what type of error, some firms decide to restate. Hence, the second research question is to understand why firms restate, despite the guidance not to. Upon resubmitting the financial report to Bolagsverket, real effects following the restatement might arise, as suggested in prior literature.



2.3 Comparison between Swedish Private Context and Other Accounting Regimes

Since prior literature within restatements have largely focused on public U.S. firms and, in the case of private firm restatements, UK, it is also important to compare the processes under other relevant accounting regimes. For instance, for firms under IFRS, errors are to be rectified in the comparative information presented in the subsequent report (IAS

[7] A further consideration of the Swedish restatement process is that in some instances the written request is attached to the amended report by Bolagsverket, showing exactly what has been restated and why, while in other instances the restatement letter is not disclosed. In these cases, there is no official way of knowing that a restatement has occurred.

8.41, 2021). Under US GAAP, there are three different types of restatements (BDO, 2022). If the error is material, the firm needs to amend the errors and reissue a new financial report for the period the error occurred (Type 1). Type 2 is when the error is initially immaterial that leads to a material error in succeeding periods. For this type, the firm would correct the error in the subsequent report by adjusting comparative figures from the period the error occurred, together with disclosure of the error. Out-of-period adjustment (Type 3) occurs when an error is seen as immaterial in the period it is detected as well as prior periods. In this case, the error is only corrected in the subsequent report, excluding disclosure of the error (BDO, 2022). Further, regarding UK private firms, Companies House (CH) states that amended reports must refer to the same period as the original report and that the firm needs to state clearly why the accounts are being replaced (gov.uk, 2022). In summary, errors committed by listed firms under IFRS, two of the types of restatements under US GAAP and errors under K2 and K3 in Sweden, should not be restated in the report containing the error, instead the error should be restated in the subsequent report. On the other hand, in the first type of restatement under US GAAP, and in the UK private setting, the firm should resubmit a new amended report for the period containing the error. This procedure is how some Swedish private firms restate, demonstrating the current inconsistency and loophole for Swedish private firms.

3 Literature Review

3.1 Function of Financial Reporting

Depending on the company type and ownership structure, the stakeholder composition varies between firms. In contrast to public firms, private firms face a much less complex stakeholder composition. A lower demand for quality reporting leads to reduced scrutiny from auditors, analysts, boards, litigants, press, and rating agencies (Ball & Shivakumar, 2005). Rather than external demand, the accounting quality is a function of the financial reporting regulations for private firms (Gassen, 2017). While accounting quality and public interest is limited and owners have more insight in private firms, financial reporting still serves as an important tool in the communication with external stakeholders. For example, Niskanen and Niskanen (2004) show that creditors rely on financial statements for debt contracting and Elemes and Filip (2022) show that suppliers rely on financial information to assess credit lines. As suggested by prior literature, information asymmetry is reduced as an effect of increased accounting quality, resulting in stakeholders receiving a more accurate representation of the firm's state (Vander Bauwhede et al., 2015; Balsmeier & Vanhaverbeke, 2018).

Regardless of the type of firm, if financial reports disclose incorrect information about the firm, the information asymmetry will instead increase, making it more difficult for stakeholders to evaluate the specific firm's state (Ding et al., 2016; Hope & Vyas, 2017). Firms correct the error in the financial report by restating the information, though as explored, the procedure varies for different accounting regimes. Regardless of the nature of the restatement, they fundamentally create an uncertainty around the credibility of the restating firms' financial statements, signaling lower quality of information and questioning the general accounting quality. Additionally, while oftentimes the intention of the restatement is to increase validity and understanding of certain disclosed accounting items, the act of the restatement itself may cause stakeholders to question other aspects of the firms' stated information and performance (Wilson, 2008).

3.2 What Type of Firms Restate

This paper's first research question is to understand what types of firms restate. Existing research, largely focusing on U.S public firm restatements[8], suggests that there is a correlation between firms with high degree of expertise from auditors, which is often seen as an indicator for accounting quality, and reduced likelihood for firms to make

[8] Operating under US GAAP.

restatements (Johnson et al. 2002; Gunny et al., 2007; Stanley & DeZoort, 2007; Beasley et al., 2009). Gleason et al. (2008) also find that restatements indicate that initial accounting practice may elevate uncertainty in terms of external audit independence, internal control adequacy, audit committee oversight, and management integrity. Since this study includes both firms that are audited and unaudited, the auditor influence provides an additional dynamic, as unaudited firms ought to be more likely to restate. However, since external audit is mandatory for public firms, it is uncertain to what extent audit status has an effect. Studying the setting of private firms makes it possible to examine a more pronounced effect of having an auditor. Further, firms that are smaller in size, less profitable, show slower growth, have higher leverage, and raise more capital during non-reporting periods are also considered to make restatements to a larger extent (Kinney & McDaniel, 1989; Scholz, 2008). In many cases, especially for young or complex firms, the restatements are a result of inadequate accounting control, while in other cases they are connected to accounting fraud or opportunistic managerial behavior (Palmrose et al. 2004; Churyk et al. 2009).

In contrast to the rich listed firm research, little is known about restatements in a private context (see Clatworthy & Peel, 2013; Clatworthy & Peel, 2021). Analyzing UK private firms, Clatworthy and Peel (2013) find that more gender diverse board composition in firms reduces the likelihood of restating accounts. Additionally, Clatworthy and Peel (2013) investigates if accounting expertise decreases the likelihood of restatements, however without any significant association. This is contrasted by other research (e.g., Aier et al., 2005), who finds that firms that have CFOs with greater financial quality are also less likely to amend reports and restate. Further, Clatworthy and Peel (2013) find that voluntary external audit is of importance for accounting accuracy, and that firms are twice as likely to publish financial reports that contain errors if their accounts are not audited. Clatworthy and Peel (2013; 2021) further connect the likelihood of restatements with firm characteristics and find that younger, more complex, financially distressed, riskier, and voluntarily disclosing companies are more likely to restate accounts, while firms with higher female board representation and voluntary audits are associated with fewer restatements. Factors indicating poor accounting practices or suspect managerial and governance approaches highlight the conjecture that there are certain types of firms that restate.

Following a difference in stakeholder composition and consequently in regulations and accounting quality demand, the frequency of restatements and the characteristics and what type of restatement differ. Kravet and Shevlin (2010) show that approximately 0.8%

of U.S. public companies restate their financials each year due to material errors. Some prior research find that the most common types of restatements relate to revenue recognition, sales, or cost of operating or asset/inventory (Anderson & Yohn, 2002; Hribar & Jenkins, 2004; Palmrose et al., 2004)[9]. These findings align with the different accounting regimes recommendations in the sense that it is of greater importance and frequency that material errors are restated, likely creating a bias for the observed frequency of material errors. Additionally, Clatworthy and Peel (2013) hand-collects a sample to further understand what types of errors are common in the UK private setting. They find that 66% of the amendments were related to financial figures, such as errors related to accounts receivables, inventories, accounts payable, and other balance sheet items.

3.3 Why Firms Restate

Firms should comply with the laws and regulations in their jurisdictions. However, when ambiguity and lack of disclosure enforcement exists, prior research suggests that private firms rather pursue behavior reducing or avoiding disclosure costs (Laschewski and Nasev, 2021). Further, prior studies document how firms make financial reporting decisions to avoid predation risk, disclosure costs or increased competition (Bernard, 2016; Bernard et al., 2018; Breur, 2018).

Although firms could conceivably be motivated to restate, it is not only in their mandate to initiate the restatements[10] (Fragoso et al., 2020). Thus, we turn our attention to the role that external parties take in influencing the decision to restate. Hribar and Jenkins (2004) show that while most restatements are initiated by the companies themselves[11], restatements initiated by external parties such as auditors and the SEC result in more negative reactions. The findings, backed up by Palmrose et al. (2004), also highlight the importance of external stakeholders and regulatory requirements on the restatement process. While no study has previously investigated the initiators behind private firm restatements, the absence of mandatory audits and less strict regulatory standards,

[9] Kravet and Shevlin (2010) find that the most common errors are associated with revenue recognition; cost or expense; M&A; in-process R&D; reclassification; and restructuring, assets or inventory. Other authors find that the most common errors are associated with expense recognition, misclassification, equity, revenue recognition, tax accounting, OCI, acquisitions/investments, capital assets, inventory, liabilities/contingencies as well as reserves and allowances Turner and Weirich (2006).

[10] In jurisdictions where restatements are not mandatory.

[11] Hribar and Jenkins (2004) find that the companies themselves initiate 38%, the SEC initiates 16.4% and auditors initiate 7.2% of the restatements in samples constructed by the U.S. Government Accountability Office of the U.S. market (U.S. GAO).

presents the proposition that the mandate to restate in private settings is to a greater extent on the firm.

Contrasting the findings that individual firms pursue self-serving activities when weak enforcement or regulatory ambiguity exists, to the regulatory guidance on Swedish restatements, motivates us to explore the question of why firms restate. Inferred from existing findings is that if firms deem the effects of restatements to be net positive, individual firms are incentivized to do so. Interestingly, there is little empirical evidence suggesting positive effects of restatements. Existing research, limited to listed firm restatements, finds that restatements create a signaling effect which diminishes external stakeholders' interpretation of the quality of financial information (Dechow et al., 1996; Palmrose et al., 2004; Gleason et al. 2008). While acknowledging contextual differences with prior literature, many of the resulting consequences are relevant for the firms included in this study. Gleason et al. (2008) finds that the credibility and reputation of the firm becomes diminished by investors. Similarly, Park and Wu (2009) show that restatements influence creditors perception and that banks amend credit contract terms accordingly by demanding a higher degree of collateral, more restrictive covenants as well as higher interest spreads. These findings are consistent with assertions that firms experience an increase in cost of debt and equity capital following accounting restatements (Kravet & Shevlin, 2010; Hribar & Jenkins, 2014; Chen, 2016, Fragoso et al., 2020).

3.4 Research Proposition

Stakeholders can better assess firms' state if financial reports include better accounting quality. However, the stakeholder composition and the accounting regimes influence the content and the level of accounting quality that is required. These differences could potentially affect the restatement activity, in particular the types of restatements, in what period the restatements occur, why firms restate, and the consequences. This in turn has implications on our research questions and consequently research design.

Following the limited existing research on private firm restatements, our base assumption is that we will find similar characteristics in our sample as prior research has established. Hence, similarly to Clatworthy and Peel's (2013; 2021) study, we expect that firms that restate more often are unaudited, financially distressed, more complex, and younger. In complementing associations from private firm research, we propose that the firms included in this study that restate to a greater extent are less profitable, show slower growth and have higher leverage, as supported by listed firm research (Kinney &

McDaniel, 1989; Gunny et al., 2007; Stanley & DeZoort, 2007). Influenced by prior research on types of restatements, we also extend our analysis to investigate whether the level of materiality of the error can provide further insight into what types of firms restate.

The second research question is motivated by prior literature suggesting that firms pursue self-serving activities when regulatory ambiguity exists. The current K2 and K3 treatment of reissuing restatements presents a scenario where such behavior could be motivated. However, as prior literature suggests the consequences of reissuing restatements are overwhelmingly negative. Prompted by this tension, we explore why firms in Sweden still choose to restate, despite the ruling administrative guidance. Though restatement as a topic has been researched extensively, we hypothesize that the differences in accounting regimes have significant implications on our results and findings. Nevertheless, we propose that the firms are aware of the guidance and as a consequence of the Swedish setting, could be incentivized to reissue their financial reports.

In conclusion, based on prior literature and the institutional background, our research proposition is focused on expanding the extant knowledge of restatements for Swedish private firms. Thus, with a background of limited prior research this paper is more exploratory in nature. In summary, the purpose of this paper is to understand:

(1) what types of firms restate, and;
(2) why firms restate

4 Data Sources & Research Design

4.1 Sample Selection & Data Processing

To answer the paper's two research questions, we structure our analysis around two main samples. Our samples comprise all Swedish private limited companies with the necessary accounting and non-financial data for the years 2014 and 2021[12]. The first sample (*Sample 1*), comprised of 624 firms that restated and 291,028 that did not restate in the period 2014, is used to examine what type of firms restate and to anchor the Swedish context in prior literature. The second sample (*Sample 2*) includes 40 (76) restatement (non-restatement) firms from 2021 and constitutes the sample used to describe and examine why firms restate. We use a sample of firm data from 2014 to enable a larger sample size from a year characterized with few regulatory and financial disturbances. *Sample 2* is based on firm interviews. To ensure a high response rate as well as recollection of the restatement process from the respondents we select firms that restated their reports in H2 2021. As such, *Sample 2* is constructed of 40 firms which are systematically interviewed following the questionnaire in *Table 2*. The firms are selected at random from the pool of 1,588 firms that restated in 2021 and matched with 76 non-restatement firms with similar financial characteristics as outlined in *4.4.4 Constructing a Matched Control Group*. A detailed overview of the sample selection process is presented in *Table A.1*.

The list of firms that have performed an accounting restatement is obtained directly from Bolagsverket, with help from the Department of Accounting at the Stockholm School of Economics. In addition to providing information of which firms restated, the list contains details regarding which financial report was restated, when the restatement occurred and how many restatements each firm has performed. To collect information regarding types of restatements and consequently materiality, we manually check all 2014 restatements firms' (1,137) annual reports for the written restatement request. For each firm we collect financial statement information from the Serrano database[13]. The financial information is used to filter *Sample 1* and *Sample 2*, provide descriptives and construct the variables of interest in our analysis. In addition to the restatement list and financial information, supplementary information is collected for *Sample 2*. As outlined in *4.4.1 Interview Design*, we conduct interviews to discern why firms restate, initiators and types of restatements.

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[12] The 2014 sample is based on firms restating their 2014 annual report and the 2021 sample is based on the firms submitting restatements in 2021, i.e., annual reports ranging between 2014-2021 (although c. 75% of restated annual reports are for the financial year 2020).

[13] Serrano is a database with financial history on most legal entities in Sweden. The financial data is based on financial statement data from Bolagsverket, complemented with general company data from Statistics Sweden (SCB) and group data from Bisnode's register (Serrano, 2022).

Additionally, we manually collect non-financial information from Business Retriever regarding board and management characteristics. The non-financial information collected for *Sample 2* is used to operationalize the findings from the conducted interviews.

Based on the outlined data collection, we calculate the financial variables presented in *Table 1* and compose the non-financial variables in *Table 3*. While we study firms that restate in 2014 and 2021, we base the analysis on the preceding years' financials. This is to ensure that the financials are not manipulated as a result of the restatements and that they are comparable throughout the samples. Following Clatworthy and Peel (2021), we also winsorize the continuous variables *EBIT to Assets, Sales Growth, Trade Credits* and *BS Accruals* at the 1% and 99% level to reduce the effects of extreme observations[14].

4.2 Research Design: Multivariable Logistic Model

To investigate what type of firms restate their financial reports and why, multivariable logistic regression models based on cross-sectional data are performed, following the methodology of Clatworthy and Peel (2013). The chosen research design allows us to analyze the impact that each of the explanatory variables has on the likelihood of a firm conducting a restatement.

The logistic regression model is a binary response model that makes it possible to establish a binary outcome and a vector of independent variables (Hosmer & Lemeshow, 2000). A logistic regression takes an s-shaped regression function, with the greatest change in probability seen when the probability is around 50% (Dey & Astin, 1993). Using a multivariate logit model is appropriate for testing the first step of our paper since (i) we include multiple predictors, (ii) we cannot assume a linear relationship between our dependent and independent variables, and (iii) because our dependent variable is binary. The model uses a standard logistic distribution of errors, and hence can be specified as following:

$$\text{Probability } (p) = \Lambda(x'\beta) = \frac{exp(\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_p X_p)}{1 + exp\,(\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_p X_p)} \qquad (1)$$

In this case, (p) is the expected probability that the outcome is present, X_1 through X_p are independent variables, and β_1 through β_p are the coefficients in the regression. *Equation 1*

[14] To improve quality of the matched sample, ROA and SALESGR are matched at the 5% and 10% level in the matching procedure.

provides the specifications for the multivariable logit model and facilitates the assessment of observable determinants of the probability of companies restating their accounts.

Further, we tabulate logit coefficients, odds ratios and VIF. We calculate these as the exponential of the coefficients (log odds) values, showing how the change in unit (or discrete shift in the binary regressor) in the value of an independent variable (determined by its log odds coefficient) results in the change in the odds, i.e., an increase (decrease) in probability for positive (negative) coefficients, of the firm submitting a restatement (Greene, 2003; Clatworthy and Peel, 2013).

4.3 Understanding What Type of Firms Restate

The first research question in this paper sets out to understand what type of firms restate. Prior literature has identified several financial and firm characteristics that correlate with restatement firms. Using a multivariable logistic regression, we contrast prior findings with Swedish restatement firms and provide a point of reference for our proprietary data.

4.3.1 Variables of Interest to Understand What Type of Firms Restate

This study's main variable is the dummy variable restatement, *Restate* (RESTATE)[15]. To address factors associated with firms submitting restatements, several independent variables based on prior research are included in this study to fully reflect the financial and descriptive condition of the firms. Research shows that firms with weaker financial performance are more likely to manipulate reports and have less capital to allocate to higher quality in their reports (Ettredge et al., 2010). Clatworthy & Peel (2021) also find that larger firms, entailing a higher level of accounting complexity, lead to more accounting errors, while Kinney & McDaniel (1989), contrastingly find that smaller firms are more likely to make errors due to insufficient resources and control systems. As such, size is included as a variable. Additionally, working capital and leverage ratios are shown to correlate with tighter and more restrictive debt covenants (Duke & Hunt, 1990). Assuming that a higher leverage implies that the firm is closer to covenant constraints, prior research asserts that highly levered firms manipulate accounting information to a greater extent (DeFond & Jiambalvo, 1991). Total liabilities to total assets is also considered as a factor in order to understand what type of firms that restate (Kinney & McDaniel, 1989). Further, as stated by Abbott et al. (2004) and Doyle et al. (2007), older firms have relatively more experience of preparing financial reports, with more

[15] The dummy variable takes the value 1 for all restatement firms in *Model 1a* and in *Model 1b* it represents only firms submitting material restatements, displayed in *Table B.1*. If the company has not restated for that particular financial year RESTATE assumes the value 0.

professional and mature preparation of accounts. As Clatworthy and Peel (2013) argue that financially distressed firms are more likely to restate their accounts, we also include company failure as associated with firms that restate.

Ultimately, in line with Clatworthy and Peel‘s (2013) research on UK private firms, these variables are assumed to be positively associated with restatements: NEGEQ as firms with *Negative Equity*, RETPROF as *Retained Profit* to current year's total assets, NEGWCAP as firms with *Negative Working Capital*, i.e., current liabilities higher than current assets, *Leverage* (LEVER) as total liabilities to total assets and FAIL as if *Company Failed* within two years after accounts were filed[16], while *Size* (LNSIZE)[17] as the natural log of total assets and *Company Age* (AGE) as the natural log of the company's age are assumed to be negatively correlated.

To complement these factors, this study takes into account additional variables associated with firms restating from the listed firm domain. As prior literature suggests, low audit quality, lack of proficient audit or unaudited accounts correlates with making restatements (see e.g., Gunny et al., 2007; Stanley & DeZoort, 2007; Clatworthy & Peel, 2013; Files et al., 2014; Clatworthy & Peel, 2021). Our data includes observations that either have or do not have an auditor[18], which allows for the analysis of auditor influence. Furthermore, previous research finds that firms with slower growth and lower profitability are positively correlated with making restatements (Kinney & McDaniel, 1989; Scholz, 2008). Additionally, prior research finds that firms with lower accounting quality, and specifically restatement firms, experience a reduced reliance on short term- and long-term debt, which is subsequently substituted with trade credit financing (Chen et al., 2017; Dao et al., 2022). Accordingly, we include the following variables as factors to complement the understanding of what type of firms restate: AUDIT as if the company had an *Auditor*, EBIT/ASSETS as *EBIT to Assets*, SALESGR as *Sales Growth* between two fiscal years, and TRADECREDITS as *Trade Credits* to total assets. Since industries differ considerably, we also include *Financial Performance* (FINPER) as if the company is more profitable than the industry average to fully capture the financial performance factor and dummy variables to adjust for industry idiosyncrasies. A summary of the selected variables and respective labels is presented in *Table 1*.

[16] Clatworthy & Peel (2013) include these five variables as financial distress indicators.
[17] Following Clatworthy and Peel (2013), we measure the size and age by the natural log.
[18] In Sweden, small, limited firms are required to appoint an auditor if they during the last two years have fulfilled at least two of the three requirements: an average of more than 3 employees, a balance sheet of more than SEK1.5m, and a net turnover of more than SEK3m (Bolagsverket, 2021b).

Table 1

Variables and Labels for Model 1a & Model 1b

The following table presents a summary of the included variables of interest and controls used in *Model 1a* and *Model 1b* to investigate factors associated with the type of firms that restate. The variables AGE, LNSIZE, LEVER, RETPROF, AUDIT, FAIL, FINPER, NEGEQ, NEGWCAP are inspired by private firm research (Clatworthy & Peel, 2013; Clatworthy & Peel, 2021). The remaining variables are motivated by prior public research.

Variables	Labels
RESTATE	*Restate*. 1 if company restated their financials.
AGE	*Company Age*. Natural log of the company's age (years).
LNSIZE	*Size*. Natural log of total assets (SEK).
LEVER	*Leverage*. Total liabilities to total assets (%).
RETPROF	*Retained Profit*. Retained profit (change in retained earnings) to average of total assets (%)
EBIT/ASSETS	*EBIT to Assets*. EBIT to average of total assets (%).
SALESGR	*Sales Growth*. Growth in sales between two fiscal year (%).
TRADECREDITS	*Trade Credits*. Trade credit to total assets (%).
AUDIT	*Auditor*. 1 if company had an auditor.
FAIL	*Company Failed*. 1 if company failed up to 2 years after accounts were filed.
FINPER	*Financial Performance*. 1 if company had ROA above industry average.
NEGEQ	*Negative Equity*. 1 if company has negative equity.
NEGWCAP	*Negative Working Capital*. 1 if company has negative working capital.
IND_DUM	Industry dummy variable based on the two-digit SNI code.

4.3.2 Specification of Model 1

Based on prior evidence we specify the model to test what type of firms restate accordingly:

$$\text{Probability } (p) = \frac{exp\begin{pmatrix} \beta_0 + \beta_1 AGE + \beta_2 LEVER + \beta_3 NEGEQ + \beta_4 NEGWCAP + \beta_5 RETPROF + \beta_6 FAIL + \\ \beta_7 AUDIT + \beta_8 EBIT/ASSETS + \beta_9 SALESGR + \beta_{10} TRADECREDIT + \beta_{11} FINPER + \beta_{12} IND\_DUM \end{pmatrix}}{1 + exp\begin{pmatrix} \beta_0 + \beta_1 AGE + \beta_2 LEVER + \beta_3 NEGEQ + \beta_4 NEGWCAP + \beta_5 RETPROF + \beta_6 FAIL + \\ \beta_7 AUDIT + \beta_8 EBIT/ASSETS + \beta_9 SALESGR + \beta_{10} TRADECREDIT + \beta_{11} FINPER + \beta_{12} IND\_DUM \end{pmatrix}} \quad (2)$$

In our initial analysis we test two models of the specification. In the first model (*Model 1a*) the dependent variable y is a dummy that takes the value 1 if the firm submits a restatement and in the second model (*Model 1b*) the dependent variable takes the value 1 only if a firm has performed a material restatement. Since firms should only restate when the error is material (BFN, 2021), we posit that immaterial restatements occur more randomly, hence we expect that the relationship between the dependent and independent variables is stronger in *Model 1b*. In both models, research variables β_1-β_6

capture characteristics found in prior literature on private firm restatements and research variables β_7-β_{11} are motivated by public firm research.

4.4 Understanding Why Firms Restate

The second research question in this paper provides further understanding of why private firms restate. The primary analysis is based on interviews conducted with restatement firms. We further complement the analysis by attempting to operationalize and generalize the motives behind the restatements in a second multivariable logistic regression (*Model 2*).

4.4.1 Interview Design

In total, 40 telephone interviews were conducted with firms restating their accounts in 2021 (see *Table A.1* for details on the selection process). The interviews provide a deeper and nuanced understanding of the restatement process from the firm side. Complementing our quantitative study with a qualitative approach is appropriate as it allows for comprehensive insights about restatements that are difficult to obtain at a larger scale, along with capturing the various steps and fine points in the restatement process.

The interview process involved unannounced calls to top executives of the selected firms during October 2022. Contact information to the firm representatives was obtained through Business Retriever or company websites. If the top executive could not provide an answer, we were referred to other relevant executives or personnel in the firm involved in the matter. The firms were randomly chosen among Swedish private firms restating during the second half of 2021, meaning that most restatements had been submitted within a year prior to the interviews. The reason for choosing this time range was to ensure that the respondents recall the specific circumstances for the particular restatement. Before answering the questions in *Table 2*, all firms were ensured anonymity and that the responses were solely for the purpose of this paper. This presumably resulted in a freer discussion, without the respondents being concerned about remarks from Bolagsverket or Skatteverket. See *Table 2* for questions included in the interviews as well as comments on the reason for including them.

Table 2

Interview Questions to Understand Why Firms Restate

The following questions were asked in the interviews to understand the motives and context of private firm restatements. Besides asking why the firms restated, we collected additional information to attain further depth of the motives. Understanding what the firm restates provides insight on if the error was material or not. Further, asking who found the error, who initiated the restatement and what role the auditor had provided details in the stakeholder composition and if the firms are being influenced by other parties. In addition, this conveys which initiator lacks the knowledge of the guidance not to restate and submit the amended report. Answering if the restated report was board-approved gives additional insights in the restatement process. The last question reveals if the firm recognizes benefits to restate, and if the perceived benefits outweigh the negative consequences of not restating retrospectively. During the interviews, we also asked the interviewees to walk us through the process, i.e., timeline and parties involved. Due to extensive replies, this is not included in the summary of interviews (See *Table B.3*). During the interviews, additional discussions were held, including the entailing of if the firms were aware of the administrative guidance not to restate by reissuing a new report.

Category	**Questions**
Motive	• Why did you submit the restatement?
Type of Restatement	• What did you restate?
Stakeholder composition, influence by other parties, and stakeholder knowledge	• Who found the error? • Who initiated the restatement? • What was your auditor's role in the process?
Restatement process	• Can you walk us through the restatement process? • Did your board-approve the restated report?
Recognized benefits to restate	• What is your view on the consequences of submitting/not submitting the restatement?

4.4.2 Variables of Interest to Understand Why Firms Restate

To operationalize the interview findings and shed further light on why firms restate, we capture the stated motives with a range of quantifiable variables. We structured the findings in three overarching categories; tangible consequences capturing the desire to avoid bad credit ratings and bankruptcy, outside perception comprising firm reputation and attention from Skatteverket and finally organizational knowledge capturing the companies' inclination towards restatements. While the interviews gave a range of different motives behind restating, we grouped the responses in these three categories to structure and facilitate the analysis.

Tangible Consequences

With the motive of restating to avoid tangible consequences i.e., bad credit rating and bankruptcy risk, we incorporate a variable for *Bankruptcy Prediction* (PFAIL) developed by Skogsvik (1988). The multivariate prediction model is based on four financial key ratios and estimates the probability of a firm failing within two years. *Bankruptcy Prediction* captures both tangible consequences by allowing us to estimate and identify the firms that are close to failing and the deteriorating credit quality associated with financial distress. While the positive association between the motive to restate to avoid bankruptcy and *Bankruptcy Prediction* is direct, we include the variable *Warning Signals*[19] (WARSIG) to capture further elements associated with bad credit rating. The rationale to include *Warning Signals* is because prior literature has shown a link between restatements, credit ratings, and bankruptcies (Chen, 2016). We thus use warning signals as an indicator of inferior credit ratings and history of bankruptcies and expect to find a positive relationship between firms with warning signals and the tendency to restate.

Outside Perception

In the second overarching motive we group avoiding attention from Skatteverket and fear of deteriorating reputation. Both motives indicate that not restating would cause unwanted attention or repercussions from external parties. To capture the desire to avoid unnecessary attention from Skatteverket we include *Tax Allocation* (TAX_ALLOC) to tax allocation reserves during the past two years. We expect to see a positive coefficient for *Tax Allocation* for two reasons. First, we posit that firms using tax allocation reserves are doing so to reduce tax liabilities. Since the legal-entity accounting and tax filings are tightly linked in Sweden (Dong et al., 2022), we expect that firms pursuing active measures to decrease tax costs are also intentional with their financial reporting, both in fear that errors detected by one part might spread over to the other and in fear of receiving misreporting repercussions from Bolagsverket. Second, we identify that tax allocation reserves correlate with higher accounting complexity, leading to potentially more errors and restatements. Another motive for restating is fear of deteriorating reputation, as prior studies show that accounting errors negatively affect firms' reputation (e.g., Fragoso et al., 2020). If the firm's interlock is greater, the contagion effects of bad reputation in one firm may be more significant. Thus, if the firm has a larger network, they are likely more associated with a higher level of restatements. Therefore, we include *Firm Interlock* (NETWORK) as a variable, i.e., the top executive's interconnection with other board members in other firms.

[19] Warning signals are based on if an executive within the firm has appeared in legal documentation from the Courts of Sweden, related to payment remarks, outstanding debt to Kronofogden (Enforcement Authority), debt settlement, part of a distraint, or have had a previous position at a firm that has gone bankrupt (Business Retriever, 2022). Although an explicit credit rating variable would have been preferred, due to limited data, *Warning Signals* is chosen as a close indicator.

Organizational Knowledge

Next, we consider general fear of providing incorrect information as well as instructions from Bolagsverket to restate as possible motives. We tie this to low organizational knowledge since higher financial expertise in firms would infer that many of these issues would not occur. General fear of providing incorrect information stems from low accounting quality and knowledge, while instructions from Bolagsverket indicate sloppiness in the filing of the financial reports. In light of this, we consider the top executive's experience measured in *CEO Experience* (LNCEOYEAR) at the firm and how many *Current Positions* (CURRPOS) the chairman has in other firms as variables. We also take into consideration if the chairman of the board is also the CEO, *CEO & Chair* (CEO_CHAIR), which could imply operational knowledge rather than the financial expertise an appointed external CEO can bring. In addition, the *Board Size* (LNBOARD_SIZE), is included as a variable, since larger boards should promote more knowledge and experience (Dalton et al., 1999). Additionally, Aier et al. (2005) find that CFOs with higher financial expertise are less likely to amend reports and restate. Clatworthy and Peel (2013) also investigate if accounting expertise reduces the likelihood of restatements, although they are not able to establish significance. Thus, including these variables will contribute to the equivocal research.

Table 3

Variables and Labels for Model 2

The following table presents a summary of the included variables of interest and controls used in *Model 2*. Variables WARSIG, PFAIL, TAX_ALLOC, NETWORK, LNCEOYEAR, CURRPOS, CEO_CHAIR, LNBOARD_SIZE, EBIT/ASSETS are considered the study's research variables of interest and variables AUDIT, LNSIZE, ROA, BS_ACCRUALS and SALESGR_w10 are included as control variables. For LNSIZE and LNBOARD_SIZE, we measure based on the natural log, in line with Clatworthy and Peel (2013). For NETWORK, we exclude participation in Housing Cooperatives to get a better representation of firm interlock.

Variables	**Labels**
WARSIG	*Warning Signals*. 1 if company has received a warning signal.
PFAIL	*Bankruptcy Prediction*. Probability of bankruptcy within coming 2 years (Skogsvik, 1987) (%).[20]
TAX_ALLOC	*Tax Allocation*. 1 if company used tax allocation reserve last two years.
NETWORK	*Firm Interlock*. Interconnections top executives has with board members in other firms (no.)
LNCEOYEAR	*CEO Experience*. Natural log of number of years of current CEO (years).
CURRPOS	*Current Positions*. Number of positions current chairman holds in other firms (no.).
CEO_CHAIR	*CEO & Chair*. 1 if CEO of company is also chairman of the board.
LNBOARD_SIZE	*Board Size*. Natural log of number of board members (no.).
AUDIT	*Auditor*. 1 if the firm has an auditor.
LNSIZE	*Size*. Natural log of total assets (SEK).
ROA	*ROA*. Net income to total average assets (%).
BS_ACCRUALS	*BS Accruals*. Change in net operating assets/average net operating assets (%).[21]
SALESGR_w10	*Sales Growth*. Growth in revenue from the prior financial year, winsorized at 10% level (%).

4.4.3 Specification of Model 2

Based on the discussed variables, we construct the following multivariable logistic regression:

$$\text{Probability } (p) = \frac{exp\begin{pmatrix} \beta_0 + \beta_1 Tangible\ Consequences + \beta_2 Outside\ Perception + \\ \beta_3 Organizational\ Knowledge + \sum_5 \beta_4 Control\ Variables \end{pmatrix}}{1 + exp\begin{pmatrix} \beta_0 + \beta_1 Tangible\ Consequences + \beta_2 Outside\ Perception + \\ \beta_3 Organizational\ Knowledge + \sum_5 \beta_4 Control\ Variables \end{pmatrix}} \quad (3)$$

Similarly to *Model 1,* the dependent variable takes the value 1 if the firm has performed a restatement in the selected time period and 0 otherwise. The control variables comprise

[20] PFAIL is based on the Skogsvik prediction model (1987), which uses a probit function to forecast the probability of failure with a two-year forecast horizon. Specified accordingly = V =-1.1 -3.8*R1 + 14.5*R2 + 0.7*R3-2.9R*4
R1 = (earnings before taxes and interest expense$_t$ and interest expense$_t$)/[(Total assets + total assets-1)/2]
R2 = (interest expense$_t$)/(total liabilities + total liabilities$_{t-1}$)/2
R3 = [(inventory$_t$ + inventory$_{t-1}$)/2]/sales$_t$
R4 = (owners equity$_t$)/(total assets$_t$)

[21] Net operating assets is defined as: Total assets - cash - total liabilities + loans + long-term debt.

Auditor (AUDIT), *ROA* (ROA), *BS Accruals* (BSACCRUALS) and *Sales Growth* (SALESGR) which are used and presented in the propensity score matching outlined in *4.4.4 Constructing a Matched Control Group*.

4.4.4 Constructing a Matched Control Group

To isolate non-financial differences between our interview firms and firms that do not restate we construct a matched sample. Although we attempt to understand why firms restate, it is problematic to distinguish why certain firms committing accounting errors restate, while other firms committing similar errors do not restate. To mitigate the bias of unidentified defective accounts in our model we match our 40 interview firms based on their audit status (*Auditor*), 2020 values of balance sheet accruals (*BS Accruals*), total assets (*Size*), profitability (*ROA*) and sales growth (*Sales Growth*). We also require our firms to be in the same industry (based on the two-digit SNI code for Swedish Industrial Classification), and we use a one-to-two nearest neighbors matching within a caliper of 0.1 (Rosenbaum and Rubin 1985, pp. 33–38). Each of our matching variables encapsulate a specific dimension of accounting error propensity. *Auditor* captures the firms' financial expertise and control systems, which could affect the likelihood of making an error (Gunny et al., 2007; Stanley & DeZoort, 2007). The balance sheet accruals ratio captures the firm's accounting complexity, which may influence the likelihood of accounting errors occurring (Laschewski & Nasev, 2021). *Size* captures firm structure and accounting complexity, which could also affect the likelihood of errors occurring (Clatworthy & Peel, 2013). *ROA* captures the financial health of the firm, which may affect the resources and focus spent on accounting and control systems. Lastly, *Sales Growth* captures firm stability, which can influence the accounting competency and processes instilled within the firm. The matching procedure results in a total sample of 114 observations including 38 restatement firms and 76 non-restatement firms. Since the control group is substantially larger than the treatment group we attain an accurate matching with very similar control variables across the groups, presented in *Table 6*.

5 Results and Analyses

5.1 Understanding What Type of Firms Restate

We start our analysis of understanding what type of firms restate by presenting the descriptive statistics comparing restatement firms with non-restatement firms in *Sample 1* as well as the results from *Model 1a* and *Model 1b*.

5.1.1 Descriptive Statistics of Sample 1

Table 4 presents the summary descriptives for *Sample 1*. We infer that the median (mean) total assets for the restatement firms is SEK1.2m (SEK43.1m)[22], which is distinctly lower than observations from listed firm research (Hribar & Jenkins, 2004), but in range with private firm research's findings (Clatworthy & Peel, 2013). Further, the difference in size between restatement firms and non-restatement firms is negligible, opposing prior literature that suggests that larger firms are associated with more restatements (Clatworthy and Peel, 2013). *Table 4* also reveals that only 0.21% of the firms in our sample submitted a restatement. This is considerably lower than what is observed in both public[23] and private research[24], which is expected due to more lenient reporting requirements for private firms and to the administrative guidance on the treatment of reissuing reports following restatements in Sweden.

Although firm size, which should indicate similar audit requirements, is comparable between restatement and non-restatement firms, we observe that there is a disparity in audit frequency between restatement firms (0.51) and non-restatement firms (0.68). Since audit requirements for Swedish private firms differ from the requirements in adjacent studies, comparable figures are unavailable. However, most comparable studies also find that audit status is negatively related to restatements (Johnson et al. 2002; Beasley et al., 2009; Clatworthy & Peel, 2013; Files et al., 2014; Clatworthy & Peel, 2021). Additionally, we observe that the variable for accounting complexity, *BS Accruals*, is higher for the restatement firms, suggesting that accounting complexity and low oversight are associated with more accounting restatements.

[22] Size is reported in absolute numbers, compared to natural log format in Table 4.
[23] Prior research shows a frequency of restatements of approximately 0.8% as found by Kravet & Shevlin (2010)
[24] Clatworthy & Peel (2013) find that 0.62% of the UK private firms included in their sample restated their accounts.

While it can be misleading to draw final conclusions from the data presented in *Table 4*, collectively there appears to be significant differences for several variables between the two groups. Specifically, firms with auditors, higher reliance on debt financing and more mature firms are associated with fewer submitted restatements. While conversely, firms appear to be more likely to restate their accounts if they are younger, more profitable, faster growing, have negative equity or working capital, or fail within two years after filing.

Table 4

Sample 1 - Descriptives of What Type of Firms that Restate

Table 4 includes a descriptive summary of the 291,652 firms included in *Sample 1*. The table provides the metrics mean, standard deviation, 25th percentile, median and 75th percentile. Presented are the financial characteristics based on Clatworthy and Peel (2013) as well as prior literature on listed companies as of end of 2013. LNSIZE (Size) is the natural log of total assets, AGE (Company Age) is the natural log of the company's age, LEVER (Leverage) is the total liabilities to total assets, NEGEQ (Negative Equity) is if the company has negative equity, NEGWCAP (Negative Working Capital) is if the company has negative working capital, RETPROF (Retained Profit) is the retained profit (change in retained earnings) to average of total assets, FAIL (Company Failed) is if the company failed up to 2 years after accounts were filed, AUDIT (Auditor) is if the company had an auditor, EBIT/Assets (EBIT to Assets) is the EBIT to average of total assets, SALESGR (Sales Growth) is the growth in sales between two fiscal years, BS_ACCRUALS (BS Accruals) is the change in net operating assets/average net operating assets, TRADECREDITS (Trade Credits) is the trade credit to total assets, and FINPER (Financial Performance) is if the company had ROA above industry average. BS Accruals is included in below descriptives in order to compare the accounting complexity with the matched sample in *Model 2*.

	Mean	Std. dev.	p25	Median	p75
	Panel A: Non-restatement Firms (n=291,028)				
LNSIZE	14.46	1.90	13.20	14.31	15.56
AGE	15.11	13.97	5.00	11.00	22.00
LEVER	1.08	21.50	0.39	0.63	0.83
NEGEQ	0.05	0.22	0.00	0.00	0.00
NEGWCAP	0.19	0.39	0.00	0.00	0.00
RETPROF	0.00	0.49	-0.01	0.00	0.02
FAIL	0.03	0.17	0.00	0.00	0.00
AUDIT	0.68	0.47	0.00	1.00	1.00
EBIT/ASSETS	7.0%	28.6%	-2.2%	5.0%	17.7%
SALESGR	24.6%	149.3%	-20.5%	-0.3%	17.5%
BS_ACCRUALS	0.02	19.20	-0.37	0.00	0.43
TRADECREDIT	8.2%	12.9%	0.1%	2.4%	10.7%
FINPER	0.48	0.50	0.00	0.00	1.00

(Continued)

Panel B: Restatement Firms (n=624) – *Continued*					
LNSIZE	14.41	1.90	13.05	14.24	15.63
AGE	12.64	12.70	3.00	9.00	19.00
LEVER	0.78	1.60	0.41	0.65	0.84
NEGEQ	0.06	0.24	0.00	0.00	0.00
NEGWCAP	0.20	0.40	0.00	0.00	0.00
RETPROF	0.00	0.11	0.00	0.00	0.02
FAIL	0.06	0.24	0.00	0.00	0.00
AUDIT	0.51	0.50	0.00	1.00	1.00
EBIT/ASSETS	10.0%	33.0%	-0.4%	6.3%	23.9%
SALESGR	60.8%	215.3%	-14.8%	5.2%	36.6%
BS_ACCRUALS	0.38	5.17	-0.39	0.04	0.62
TRADECREDIT	9.2%	13.0%	0.0%	3.3%	15.1%
FINPER	0.52	0.50	0.00	1.00	1.00

5.1.2 Multivariate Analysis of What Type of Firms Restate

We continue the analysis by contrasting our findings to existing research on private firm restatements and confirm that we find similar results. *Table 6* displays the regression model (*Model 1a*) with *Restate* as the dependent variable, together with the odds ratios and variance inflation factors for the explanatory variables. *Model 1a* shows estimated parameters for all firms in *Sample 1* (*n* = 291,652) and besides for *Negative Equity*, *Retained Profit* and *EBIT to Assets*, all coefficients are statistically significant and most display their expected signs. Further, since the VIFs range between 1 and 4, indicating a moderate correlation between the explanatory variables, we do not consider multicollinearity to constitute a material impact on the interpretation of the regression[25].

In terms of firm characteristics, our results are largely consistent with existing research, suggesting generalizability and that the Swedish restatement context shares several similarities with previous empirics. Clatworthy and Peel (2013; 2021) show that firms less experienced and in financial distress are associated with significant increase in accounting errors and restatement filings. Our findings emulate their result, with *Company Age*, *Negative Working Capital* and *Company Failed* displaying statistical significance with similar level and signs of the coefficients. *Company Age* indicates that the likelihood of accounting errors decreases with firm age, likely as maturity of accounting and control systems grow. Although the marginal effects of firm age are relatively low, they are statistically significant, with *Company Age* indicating that for each year the likelihood of filing an error decrease by 0.01%. For firms with negative working capital, the likelihood of filing a faulty report increases by 23% and for firms that default within two years after filing the

[25] We also conduct a correlation analysis between our included variables and establish that linear correlation is in line with the coefficients in *Table 5* and does not influence the model's result, see *Table A.2*.

likelihood increases by 155%. While the significance of *Negative Equity* and *Retained Profit* cannot be established, the other financial distress variables show significantly larger impact on the likelihood of restating than Clatworthy and Peel's (2013) result suggest, further strengthening the insight that financially distressed firms are more likely to submit restatements.

Interestingly, while *Leverage* is statistically significant in both this study and Clatworthy and Peel's (2013), our results show opposing signs of the coefficient (although both close to zero). While Clatworthy and Peel (2013) establish a positive association, i.e., that firms more levered are associated with restatements, we conclude the opposite. We extend the analysis by examining the coefficient for *Trade Credits*, which shows a strong positive coefficient. A stronger reliance on trade credits, combined with characteristics of financial distress, could suggest that Swedish restatement firms' access to debt financing is more restricted, possibly explaining lower overall leverage. However, from our analysis we cannot conclude whether the restatements affect the firms' ability to receive debt funding or if the firms' financing structure affects the propensity to submit restatements.

The results in *Table 5* also display that companies with auditors are significantly less likely to submit reports containing errors than those without an auditor. The odds ratio for *Auditor* implies that their reports are 51% less likely to be restated, showing that auditors likely either ensure higher accounting quality (leading to fewer errors and consequently restatements) or advise firms to not restate. The positive association with auditor presence is in line with previous research (Gunny et al., 2007; Stanley & DeZoort, 2007), and further strengthens the proposition that auditors increase financial reporting quality.

Contrary to previous research on restatements for listed companies (Kinney & McDaniel, 1989; Scholz, 2008), *Financial Performance* and *Sales Growth* show a positive association with filing restatements. While we expected *Financial Performance* to be negatively associated, our results instead indicate that the likelihood of restatements increases by 27% if a firm has above industry profitability. Hence, more profitable firms in relation to their industry appear more likely to perform accounting restatements (although *EBIT to Assets* shows no significance in *Model 1a*). This could possibly be explained by either (i) riskier or opportunistic behavior or (ii) that less resources are placed on accounting and controlling, which could lead to lower costs. This in turn could be an effect of the rather simple stakeholder composition with less regulatory scrutiny that private firms face, as prior research argues (Ball & Shivakumar, 2005). Similarly, *Sales Growth* increases the likelihood of restatements, contradicting the expected outcome. A possible explanation for the *Sales Growth* association is that fast-growing firms, similarly to younger firms, may not have sufficient accounting and control systems in place, hence the likelihood of errors increase. Taken together, these results infer that listed firm research might not directly translate to the private restatement domain.

For firms submitting material restatements (See *Table B.2*), *Model 1b* results in fewer variables showing significance, but the impact of the statistically significant variables *Company Failed*, *Auditor*, *Sales Growth* and *Trade Credits* is more pronounced. Additionally, the pseudo R2 increases in *Model 1b*. A better fitting model and stronger coefficients suggest that material restatements are a stronger driver in the model and that material restatements occur more systematically than non-material restatements.

Model 1a and *Model 1b* successfully offer an initial understanding and insight of how Swedish accounting restatements relate to prior literature on restatements by examining several financial factors associated with firms performing accounting restatements. The findings are predominantly in line with prior research. Although, by showing that *Leverage*, *Sales Growth* and *EBIT to Assets* differ from existing private and public research, our findings suggests that contextual differences may impact what type of firms restate. While several of the variables included display statistical significance with restatements the model as a whole offers a limited explanation for the dependent variable, with a Pseudo R2 scores of only 1.73% and 4.56%. Hence, to further investigate and understand the drivers behind why these firms submit restatements additional analysis is conducted, which is presented in the following sections.

Table 5

Logistic Regression to Understand What Type of Firms Restate

Table 5 displays the results from *Model 1a* and *Model 1b*. Presented are the financial characteristics based on Clatworthy and Peel (2013) as well as prior literature on listed companies as of end of 2013. AGE (Company Age) is the natural log of the company's age, LEVER (Leverage) is the total liabilities to total assets, NEGEQ (Negative Equity) is if the company has negative equity, NEGWCAP (Negative Working Capital) is if the company has negative working capital, RETPROF (Retained Profit) is the retained profit (change in retained earnings) to average of total assets, FAIL (Company Failed) is if the company failed up to 2 years after accounts were filed, AUDIT (Auditor) is if the company had an auditor, EBIT/Assets (EBIT to Assets) is the EBIT to average of total assets, SALESGR (Sales Growth) is the growth in sales between two fiscal years, TRADECREDITS (Trade Credits) is the trade credit to total assets, and FINPER (Financial Performance) is if the company had ROA above industry average. Coefficients and odds ratios are unbracketed; z statistics are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1% level. *(Continued)*

Table 5 – *Continued*

	Full sample: Model 1a			Material restatements: Model 1b		
	Coefficients	Odds ratios	VIF	Coefficients	Odds ratios	VIF
AGE	-0.008** (2.22)	0.992	2.29	-0.004 -0.49	0.996	2.29
LEVER	-0.018* (-1.71)	0.982	1.01	-0.011 (-1.01)	0.989	1.01
NEGEQ	-0.006 (-0.03)	0.994	1.34	0.085 (0.18)	1.089	1.34
NEGWCAP	0.207* (1.77)	1.230	1.50	0.173 (0.59)	1.189	1.50
RETPROF	-0.172 (1.58)	0.842	1.02	-0.157 -1.36	0.855	1.02
FAIL	0.935*** (5.53)	2.547	1.04	1.333*** (3.72)	3.792	1.04
AUDIT	-0.703*** (-8.41)	0.495	3.34	-0.912*** (-4.55)	0.402	3.34
EBIT/ASSETS	0.143 (0.92)	1.154	1.49	0.657** (2.02)	1.929	1.49
SALESGR	0.083*** (4.86)	1.086	1.06	0.167*** (5.78)	1.182	1.06
TRADECREDIT	0.817*** (2.81)	2.263	1.70	1.736*** (3.23)	5.677	1.70
FINPER	0.238*** (2.56)	1.269	2.62	-0.021 (-0.09)	0.979	2.60
Constant	-5.972*** (12.97)			-7.482*** (-7.77)		
Industry dummies	Yes			Yes		
Observations		291,652			290,429	
Chi-squared		170.77			153.08	
Pseudo R2		1.73%			4.56%	

5.2 Understanding Why Firms Restate

In the upcoming section we set out to answer this paper's second research question, why firms restate. We present a discussion of the interview findings displayed in *Table 7*, which constitutes our main analysis, as well as our effort to operationalize and generalize these findings in *Table 8*. But first, we begin the analysis by providing the descriptive statistics for the variables representing the motives to restate and the results from the matching procedure.

5.2.1 Descriptive Statistics of Sample 2

Table 6 presents the descriptive statistics for *Sample 2*, detailing the variables included to investigate why firms restate, as well as the matching variables to mitigate the bias of unidentified defective reports. In *Table 6, Panel A* includes 76 firms that during 2021 did not restate, while *Panel B* includes 38 firms that during the period did restate their reports. The firms in *Table 6, Panel B* are based on the interviews that were conducted, with *Panel*

A including the matching sample. The data show that the mean for *Warning Signals* is slightly higher for restatement firms. The probability of bankruptcy within 2 years, *Bankruptcy Prediction*, is also slightly higher for restatement firms. According to our data, the restatement firms are also more prone to using tax avoidance, *Tax Allocation*, than non-restatement firms. Our observations further display that the firms restating have a higher degree of firm interlock. The 38 restatement firms, compared with the 76 non-restatement firms, have a CEO with more years at current position and a top executive in more current positions at other firms. The non-restatement firms of our sample more often appear to have the CEO as the chairman of the board, in relation to the restatement firms. Additionally, our restatement firms have more board members than the case for our non-restating observations.

Comparing *Sample 2* with our larger sample (*Sample 1*) used when answering our first research question, we notice that in *Sample 1*, *EBIT to Assets* and *Sales Growth* is higher for restatement firms, which is not the case for *Sample 2*[26]. We also identify that *Auditor* is lower for the entire *Sample 2*. This conveys that our second sample is not fully comparable in terms of the distribution of audited and unaudited firms for *Sample 2*. Promisingly however, non-restatement firms in both samples are more audited than the case for restatement firms. The median of *BS Accruals* is also higher for restatement firms in both samples. Based on these juxtapositions, we cannot construe that *Sample 2*, fully emulates our larger *Sample 1*, which could be explained by the lower number of observations in the second sample.

Table 6 also provides a comparison of the results of the matching procedure detailed in *4.4.4 Constructing a Matched Control Group.* All matching variables display significant similarities between the two groups, with the mean-difference being close to zero for all. The largest relative difference is seen in audit status, with restatement firms displaying a lower mean than both the matched non-restatement firms and the larger sample presented in *Table 4*. The remaining variables are very similar on both mean, median, and interquartile values between the two groups. Thus, the matching process is successful, and we can to a large extent mitigate the bias of unidentified defective accounts.

[26] Sales Growth relates to SALESGR_w1.

Table 6

Sample 2 - Descriptives to Operationalize Why Firms Restate

Table 6 includes a descriptive summary of the 114 firms included in *Sample 2*. The table provides the metrics mean, standard deviation, 25th percentile, median and 75th percentile. Presented are the descriptives used to operationalize the motives behind restatements. Panel A includes 76 observations of non-restatement firms and Panel B includes 38 (2 observations were dropped in the matching process) observations of restatement firms. WARSIG (Warning Signals) is if company has received a warning signal, PFAIL (Bankruptcy Prediction) is the probability of going bankrupt within coming 2 years (Skogsvik, 1987), TAX_ALLOC (Tax Allocation) is if company used tax allocation reserve last two years, NETWORK (Firm Interlock) is the interconnections top executives has with board members in other firms, LNCEOYEAR (CEO Experience) is the number of years of current CEO, CURRPOS (Current Positions) is the number of positions current chairman holds in other firms, CEO_CHAIR (CEO & Chair) is if the CEO of company is also chairman of the board, LNBOARD_SIZE (Board Size) is the natural log of number of board members, AUDIT (Auditor) is if the firm has an auditor, LNSIZE (Size) is the natural log of total assets, ROA (ROA) is the net income to total average assets, BS_ACCRUALS (BS Accruals) is the change in net operating assets/average net operating assets, and SALESGR_w10 (Sales Growth) is the growth in revenue from the prior financial year, winsorized at 10% level. Variables AUDIT, LNSIZE, ROA, BS_ACCRUALS, and SALESGR_w10 are matching variables, as presented in the matching procedure in *4.4.4 Constructing a Matched Control Group*.

	Mean	Std. dev.	p25	Median	p75
	Panel A: Non-restatement Firms (n=76)				
WARSIG	0.05	0.22	0.00	0.00	0.00
PFAIL	2.4%	6.1%	0.0%	0.1%	1.1%
TAX_ALLOC	0.47	0.50	0.00	0.00	1.00
NETWORK	7.43	18.97	1.00	2.00	7.00
LNCEOYEAR	1.74	1.00	1.10	2.01	2.40
CURRPOS	4.40	6.28	1.00	2.00	5.00
CEO_CHAIR	0.97	0.16	1.00	1.00	1.00
LNBOARD_SIZE	0.80	0.30	0.69	0.69	0.69
EBIT/ASSETS	12.2%	24.1%	-2.1%	8.2%	22.6%
SALESGR_w1	24.1%	146.9%	-35.9%	-7.7%	11.7%
AUDIT	0.37	0.49	0.00	0.00	1.00
LNSIZE	14.31	1.95	13.03	14.08	15.34
ROA	14.2%	20.4%	0.0%	7.3%	26.6%
BS_ACCRUALS	-0.16	3.43	-0.63	0.01	0.65
SALESGR_w10	-5.9%	42.5%	-35.9%	-7.7%	11.7%

(Continued)

	Panel B: Restatement Firms (n=38) – *Continued*				
WARSIG	0.11	0.31	0.00	0.00	0.00
PFAIL	2.5%	4.8%	0.0%	0.3%	3.4%
TAX_ALLOC	0.50	0.51	0.00	0.50	1.00
NETWORK	8.82	24.60	2.00	3.00	8.00
LNCEOYEAR	1.82	0.93	1.10	2.20	2.30
CURRPOS	8.37	24.30	2.00	3.00	6.00
CEO_CHAIR	0.92	0.27	1.00	1.00	1.00
LNBOARD_SIZE	0.91	0.32	0.69	0.69	1.10
EBIT/ASSETS	9.8%	29.0%	-0.4%	1.5%	16.7%
SALESGR_w1	0.3%	59.1%	-26.6%	-4.4%	4.6%
AUDIT	0.34	0.48	0.00	0.00	1.00
LNSIZE	14.41	1.94	13.20	14.34	15.49
ROA	14.3%	20.3%	0.4%	4.6%	18.9%
BS_ACCRUALS	-0.16	1.93	-0.33	0.04	0.89
SALESGR_w10	-4.7%	37.8%	-26.6%	-4.4%	4.6%

5.2.2 Interview Analysis of Why Firms Restate

Continuing the analysis, we present findings of why firms restate, structured around the overarching themes (i) tangible consequences, (ii) outside perception, and (iii) organizational knowledge. Subsequently, we include additional analysis to contextualize accounting restatements. *Table 7* presents a summary of the interviews conducted in order to understand why firms restate, including additional analysis. In total, 142 private firms were contacted for restatements performed in 2021, resulting in a respondent frequency of 28%, i.e., 40 observations. 30% of the respondents had an auditor for the period, slightly lower than the larger 2014 sample presented in *Table 4*. See *Table B.3* for questions and answers from the interviews in detail (Company 1-40).

Table 7

Sample 2 - Summary of Interviews of Understanding Why Firms Restate

Table 7 includes a summary of the 40 interviews conducted. Panel A includes details of the main motive behind restatement. Panel B includes contextualized details of the restatements, including audit status, initiators of the restatements, if the firm board-approved the restatement and what the firm restated. See *Table B.3* for questions and answers from the interviews in detail.

	No. observations	**Frequency**
Companies contacted	142	*100%*
Respondents	40	*28%*
Panel A: Motives Behind Accounting Restatement		
Main Motive	40	*100%*
General fear of providing incorrect information	15	*38%*
Instruction from Bolagsverket	7	*18%*
Avoid bad credit rating	6	*15%*
Avoid attention from Skatteverket	3	*8%*
Avoid bankruptcy risk	2	*5%*
Fear of deteriorating reputation	2	*5%*
Did not state a motive	5	*13%*
Panel B: Contextualizing Accounting Restatements		
Firms without Auditor	*28*	*70%*
Firms with Auditor	*12*	*30%*
Initiator	40	*100%*
Company	*19*	*48%*
Accountant	*8*	*20%*
Bolagsverket	*5*	*13%*
Auditor	*2*	*5%*
Other	*6*	*15%*
Board-approval	40	*100%*
Yes	35	*88%*
No	5	*13%*
What Did the Firm Restate?	40	*100%*
Material	**33**	***83%***
Errors in financial figures	*19*	*48%*
Section(s) missing	*10*	*25%*
Other material content incorrect/missing	*4*	*10%*
Immaterial	***6***	***15%***
Miscellaneous errors	*4*	*10%*
Rounding errors	*2*	*5%*
No explanation provided	***1***	***3%***

Below we present and discuss the motivations of why firms choose to restate, segmented in the three overarching categories. Overall, the firms seem to, in their perspective, restate for valid reasons, deeming that the benefits of restating trump the consequences of not restating. Further, in the process of discerning these motives, it became apparent that a large share of the firms was not aware of the administrative guidance against reissuing an old report. While some firms experienced pushback when submitting the amended report to Bolagsverket, with *Company 2* stating "*I must have been in contact with Bolagsverket at least 20 times, but they still wouldn't help me*", many of the contacted firms stated that the process was straightforward and that Bolagsverket made no efforts to stop the restatement submission. The fact that not all companies were aware of the guidance has implications on the analysis on why firms choose to restate. The initial assumption was that most firms are aware and thus need a significant reason to contradict the general recommendations. However, in the case of firms not being aware, these reasons do not necessarily need to be substantial to warrant a restatement, leading to an increased restatement frequency.

Tangible Consequences

Several of the interviewed firms suggest that the main motive for restating is to mitigate unwanted outcomes caused by the original report. In particular, in 15% of the cases, the respondents reveal that the main motive for restating was in order to avoid a bad credit rating. Providing incorrect or omitting information in the financial report often results in a lower or incomplete credit rating (UC Kreditupplysning, 2022). One firm stated that they received a bad credit rating from the credit rating agency due to reporting incorrect financials. *Company 32* argued that this further affected their relationship with suppliers: *"We faced consequences of lower credit rating and worse supplier relationship"*. This provides evidence that there are cases where firms must restate since the alternative is too damaging. Further, this reveals that the timing aspect of amending a report is of importance. As stated, our data only consider restatements when the firm amend a previously submitted report and file a new updated version. However, as K2 and K3 suggests, adjusting an error is allowed if it is done in the subsequent period. Since some respondents declared that it was urgent to restate before the subsequent period to continue operating, this implies that restatement in the form of reissuing a new report is motivated and sometimes essential. Had the timing aspect not been of importance, firms could instead choose to comply with the guidance and restate their report in the following period. This highlights a significant distinction between the Swedish context and prior research. Whereas prior research establishes that the consequences of restatements are primarily negative (Dechow et al., 1996; Palmrose et al., 2004; Gleason et al. 2008), we find that firms perceive the effects of restatements as positive.

Similarly, in some of the cases, firms restated in order to avoid bankruptcy risk (5%). *Company 36* explained that: "*If I didn't restate I wouldn't be able to run my business as desired...*". As a result of insufficient accounting quality, the firm had committed a significant accounting error, which incorrectly made the firm appear insolvent which necessitated an immediate correction. This demonstrates that some firms are strongly incentivized to restate by reissuing a new report and that, again, the timing of the restatement can be crucial. As evidenced in our interviews, small private firms are prone to commit serious accounting errors due to lack of resources and sufficient control systems. E.g., many firms stated that substantial errors occurred as a result of defects in accounting systems from external parties. In consequence, the fact that private firms restate could be due to the less complex stakeholder structure, where private firms do not face similar scrutiny when submitting restatements compared with listed firms, who are subject to stricter regulations, are more monitored and more susceptible to negative consequences (Ball & Shivakumar, 2005).

Outside Perception

Several interviewees stated that they restated because of fear of deteriorating reputation (5%), with *Company 18* explaining: "*We need to think about reputation/appearance since we operate our own accounting practice*". This implies that firms believe that external stakeholders, assuming that they find out, deem an accounting error to be more severe than breaking the administrative guidance. Additionally, in 8% of the cases, the firms declare that the main motive for restating was because they were afraid of drawing attention from Skatteverket. Noteworthy, the firm will be required to pay a tax surcharge if the tax amount submitted is incorrect, which could incentivize firms to send in new amended reports to evade the penalty fee. *Company 11* stated that "*It needs to be correct towards Skatteverket, we did not want to pay a fee*". Since financial statements are tightly linked to the corresponding tax filings for Swedish private firms, the firm presumably files incorrectly to Skatteverket if the tax amount is wrong in the submitted report. When trying to avoid paying the tax surcharge, the firms might also restate simultaneously in the case they believe that the new tax amount needs to correspond to the submitted report. Taken together, these examples show that some firms restate because they believe that restatements are less damaging for how they are perceived by external parties.

Organizational Knowledge

According to 38% of the respondents, the main motive behind restatement derives from a general fear of providing incorrect information. This motive does not entail if the firms are in fact aware of the guidance not to restate, but rather that the perceived benefits of restating outweighs the perceived consequences of not restating. *Company 5* stated that "*It is more important to be correct. Consequences of stating wrong information are more severe than restating information*". Instruction from Bolagsverket was in 18% of the cases the main motive behind the restatement. Based on the institutional setting, Bolagsverket's responsibility is only to ensure that all necessary sections in the financial report are included (Bolagsverket, 2021a). *Company 25* mentioned that "*Bolagsverket reached out* *regarding missing Auditor's report*". If Bolagsverket's requirements are not fulfilled, the firm is forced to pay a late filing penalty (Bolagsverket, 2021a). Assuming a section is missing in a report, for the firm to fully comply with all guidelines, they should not restate in the previous report and hence pay the penalty fee[27].

In conclusion, we find that firms restate for a range of reasons. Some firms restate because they have to, some because they want to and some because they do not know better. *Company 35* adds additional light on the current conundrum private firms face in the case of restatement: "*It feels like you are stuck in the middle; reporting incorrect information is wrong, but restating the information is also wrong"*. Most importantly, we show that firms restate because they believe that the benefits of reissuing the report outweigh the implications of not reissuing[28]. This suggests flaws in the current regulatory setting and emphasizes inconsistency for private firms to handle restatements.

Additional Analysis to Contextualize Accounting Restatements

To fully capture why firms restate it is important to consider the context of the restatements, i.e., initiators, what was restated and the board and auditor's role in the approval and assurance stages. By investigating these factors, we can make further inferences about why firms restate, complementing the reason provided by the firms.

For the interviewees that had audited accounts, the auditors' role in the restatement process differed slightly. As demonstrated, in some cases, the auditor took part in helping the firm to restate. As expressed by *Company 5*, "*The auditor identified the error, informed about it and recommended to restate*". Others stated that the auditor helped in approving the report or amending the report, or in some cases even overseeing the process and submitting a new version. Conversely, other firms stated that the auditors were not included in the process. Evidently, regardless of if the auditors are aware of the guidance not to restate under K2 and K3 for Swedish private firms, some auditors urge the firms to do so. This implies that auditors perhaps overlook the current practices. Two possible explanations for this could be that reporting correct information is too critical for the firm in order to operate, or that the auditors are concerned that the errors signal low audit quality and thus deem the restatement as a less consequential error.

[27] Instead, they should restate in next year's report in accordance with the K2 and K3 guidance.
[28] Since *Sample 2* is based on decisions made in 2021, COVID-19 could potentially affect some of the observations, although we cannot infer that this was the case from the conducted interviews.

Contrasting our findings of the most common initiators of restatements to prior literature (Hribar & Jenkins, 2004; Kraven & Shevlin, 2010), we find that the firms in our sample are to a greater extent more responsible for initiating the restatements[29]. The difference is likely the result of either (i) a difference in stakeholder composition, (ii) institutional setting or (iii) attitude towards restatements. First, since prior research focusing on initiators is limited to listed firms, the stakeholder composition differs between our sample and previous empirics. As private firms face a less complex stakeholder composition, fewer external stakeholders monitor and use the financial reports (Ball & Shivakumar, 2005). This implies that the government agencies and auditors are less involved in the firms' reports and that the firms themselves have more agency over their reporting decisions[30]. The institutional context can also help to explain the discrepancy. Since US listed firms are required to restate by reissuing a new report when a material error occurs, auditors and other monitoring parties are more inclined to initiate the process, differing the Swedish setting where it goes against the guidance. The fact that Swedish firms also seem to restate immaterial errors, likely only detected by themselves, further helps explain their involvement as initiators. Lastly, the fact that the firms are the largest initiators can also signal the firms positive attitude towards restatements. As presented in the previous sections, firms sometimes stand to benefit from filing restatements, implying that since firms are able to, and more motivated to restate, their involvement in the restatement process is higher. Overall, these findings strengthen our assertion that Swedish private firms restate because it is beneficial for them.

Most restated errors are material (83%)[31], with close to half (48%) of the errors that were restated were directly linked to financial figures that can impact a decision maker's view of the firm's financial position and health. The errors are of relatively basic nature, which is explained by the basic accounting principle under K2 and K3, contrasting to prior listed literature that finds the errors to be more complex, i.e., related to revenue and expense recognition (Hribar & Jenkins, 2004; Turner & Weirich, 2006). We further suggest that the differences in accounting regimes and stakeholder composition between our sample and prior literature affects the type of errors. Contrary, our findings are fairly in line with Clatworthy and Peel's (2013) hand-collection of errors, with 66% being related to financial figures. Noteworthy, only 15% of the respondents in our sample say that the changes were

[29] Initiators according to Hribar and Jenkins (2004): 38% company, 16% SEC, 7% auditors. Initiators according to Kraven and Shevlin (2010): 33% company, 18% SEC.
[30] Bolagsverket's function is only to confirm that all sections are included in the report, whereas the SEC has a greater responsibility. It is therefore reasonable that the SEC initiates the restatements more frequently.
[31] See Table 7 for further details of type of restatement.

immaterial[32]. Public firms should not, according to IFRS and US GAAP[33], reissue a report due to immaterial errors, and since prior literature largely analyzes public companies, this demonstrates that our share of immaterial errors is skewed.

The fact that most restatements were material indicates that there were substantial motives for the firms to restate. Further, considering that almost 20% of the restatements were immaterial indicates that there is relatively little pushback from Bolagsverket when submitting restatements. In *Table B.1* we also show that a substantial amount of the submitted restatements are undisclosed, lacking the written request at the end of the reports. The large share of undisclosed reports implies that either Bolagsverket are reluctant to add the written request or that firms restating occasionally do not disclose sufficient information, even if the amendment is material. In conclusion, by considering the types of restatements we can infer that firms restate because there is little resistance to amend errors and that firms are able to restate most financial reporting items. This implies that firms can opportunistically utilize restatements and that restating errors go unnoticed.

5.2.3 Multivariate Analysis of Why Firms Restate

After establishing several substantive reasons why firms restate, we turn to our attempt to operationalize and generalize the overarching motives behind why firms restate their financial reports. Since we posit that there must be valid motivations for firms to restate and go against reporting guidance, we expect the variables in *Model 2* capturing these motives to be statistically significant. However, as presented in *Table 8* we find inconclusive evidence. We are only able to establish significance in one of the two variables capturing tangible consequences, none for outside perception and three out of four for organizational knowledge. These findings suggest that tangible consequences and organizational knowledge (although in the form of financial proficiency) to an extent are associated with firms restating their financial reports, while outside perception likely poses little influence on the collective likelihood to restate.

Tangible Consequences

The tangible outcomes that came to light in the conducted interview process were to avoid bankruptcy and a reduced credit score, both significantly affecting the firm's opportunity to continue operations as desired. These are quantified in *Model 2* as

[32] Contrasting the interview answers with our larger 2014 sample (See *Table B.1*), we see that the proportion of disclosed immaterial restatements is significantly larger in 2014 (57%). The difference is possibly derived from the non-disclosed amount (66%).
[33] Type 1 restatement.

Bankruptcy Prediction and *Warning Signals*. Of the two, only *Warning Signals* shows significance with the likelihood to restate increasing drastically if an executive within the firm has received e.g., payment remarks or debt settlements, which we use as an indicator for bad credit rating. Though the results support the hypothesis that *Warning Signals* is positively correlated with restatement, we cannot infer if the warning signals correlate with the error itself or the restatement. As prior literature suggests, banks adjust their loan contract terms, limit covenants and increase interest spreads following restatements (Chen, 2016), indicating that the error itself potentially is the influencing factor. However, the event restatement seems to have opposite outcomes between prior literature and our findings, since some interviewees stated that the firms restate to avoid bad credit rating. Interestingly, as our interview findings suggest, it appears to mitigate a worsen credit rating. One explanatory reason could be that restatement is much more severe for public firms, resulting in acute deterioration of the credit rating. Further, since private firms are less monitored due to lower quality reporting demand (Ball & Shivakumar, 2005), the restatement does not inflict the same effect on the private firms in our sample. Overall, the differences in accounting settings appear to have an impact on the reason to restatement.

Further, in line with the positive relationship between *Company Failed* and restatements presented in *Table 7*, the variable *Bankruptcy Prediction* is strongly positively correlated with restatements. This implies that firms expecting to default within a short time period around the restatement are considerably more likely to restate their accounts, suggesting that firms could be using restatements as a way to retroactively improve their financial reports and to avoid the threat of bankruptcy. Despite our initial conjecture and the considerable correlation between actual bankruptcies and restatements found in *Model 1a*, our model cannot establish the significance of *Bankruptcy Prediction*.

Outside Perception

Although *Tax Allocation* and *Firm Interlock* both show their expected signs, neither are significant and we cannot support the inference that outside perception is a meaningful driver of restatements on an aggregated level, or at least not considered enough of a reason to contradict the administrative guidance. As outside perception was only the motive for 12.5% of the respondents (*Table 5*) the results in *Table 8* are not completely surprising but could possibly be ameliorated with a larger sample.

Organizational Knowledge

The third overarching motive is organizational knowledge, comprising general fear of providing incorrect information and instructions from Bolagsverket. All variables except *CEO Experience* show significance, implying that organizational knowledge is a material reason for firms to reissue financial reports. Interestingly however, is that the three significant variables show opposing coefficient signs of what we expected. *Current Positions* is positively associated with restatements, and it is inferred that with each additional position the likelihood of submitting a restatement increases by 23%. The results in *Table 8* thus contest our initial conjecture that more connected and experienced top executives decrease the likelihood of restatements. However, prior literature is not unanimous either (e.g., Aier et al., 2005; Clatworthy and Peel, 2013). One possible explanation for this could be that if the top executive has several positions in other firms, less time effort is put on each firm, resulting in more errors and consequentially restatements.

Similarly, our results indicate that *Board Size* is positively associated with restatements, contesting our hypothesis that larger boards contribute with more expertise, which reduces the likelihood of errors and restatements occurring. The result could indicate that board members view restatements as net positive, regardless of if they are aware that they should not restate. Since board members are personally responsible for the errors committed by the firms, they are highly incentivized to pursue the least damaging course of action. Besides violating the administrative guidance, the consequences of restatements are ambiguous, while the benefits oftentimes are tangible, encouraging the choice to restate. In firms where the CEO is both operationally active and the chairman (common for small owner-led firms), *CEO & Chair*, we see a strongly negative association with the likelihood of filing restatements. When CEOs are both operationally involved and, on the board, they are generally operationally savvy, but less informed on financial reporting regulations. This suggests that they are not aware of the relative benefits of restatements identified by experienced board members and outside CEOs, hence the lower likelihood of restatements. Lastly, these results could suggest that we did not adequately operationalize organizational knowledge but instead captured the financial proficiency that motivated the tangible consequences and outside perception restatements.

Combined, the model attempts to provide a broader understanding of why firms restate. While the model considers three main factors it is reasonable to assume that not all factors align with every restatement firm. A potential effect of this is that restatement firms that are only motivated by one factor can dilute the results of the model, causing the somewhat inconclusive results. However, overall, the model allows us to identify connections between non-financial characteristics and restatement firms that further develop the understanding of why firms restate. The most consistent motive appears to be organizational knowledge, suggesting, contradictory to our initial hypothesis derived from the interviews, that financially proficient firms are associated with restatements, possibly because they are aware of the benefits of restating. Lastly, we also strengthen the assertion presented in *5.2.2 Interview Analysis of Understanding Why Firms Restate*, that tangible consequences, such as bad credit rating, are associated with restatements, since some firms are forced to restate in order to be able to continue operating. Overall, the results reinforce parts of our interview findings by showing that several of the non-financial differences, capturing the motives to restate, are to a larger degree associated with firms that restate.

Table 8

Logistic regression to Understand Why Firms Restate

Table 8 displays the results from *Model 2*, aiming to generalize the interview findings and reinforce the motives presented in *5.2.2 Interview Analysis of Understanding Why Firms Restate*. WARSIG (Warning Signals) is if company has received a warning signal, PFAIL (Bankruptcy Prediction) is the probability of going bankrupt within coming 2 years (Skogsvik, 1987), TAX_ALLOC (Tax Allocation) is if company used tax allocation reserve last two years, NETWORK (Firm Interlock) is the interconnections top executives has with board members in other firms, LNCEOYEAR (CEO Experience) is the number of years of current CEO, CURRPOS (Current Positions) is the number of positions current chairman holds in other firms,, CEO_CHAIR (CEO & Chair) is if the CEO of company is also chairman of the board, LNBOARD_SIZE (Board Size) is the natural log of number of board members, AUDIT (Auditor) is if the firm has an auditor, LNSIZE (Size) is the natural log of total assets, ROA (ROA) is the net income to total average assets, BS_ACCRUALS (BS Accruals) is the change in net operating assets/average net operating assets, and SALESGR_w10 (Sales Growth) is the growth in revenue from the prior financial year, winsorized at 10% level. Coefficients and odds ratios are unbracketed; z statistics are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1% level. *(Continued)*

	Matched sample: Model 2 – *Continued*		
	Coefficients	Odds ratios	VIF
WARSIG	1.872** (2.19)	6.503	1.18
PFAIL	3.089 (0.91)	21.954	1.48
TAX_ALLOC	0.608 (1.30)	1.838	2.26
NETWORK	-0.169 (-1.61)	0.845	3.43
LNCEORYEAR	0.411 (1.45)	1.508	5.28
CURRPOS	0.204** (1.95)	1.226	3.41
CEO_CHAIR	-2.444** (-2.18)	0.087	26.37[34]
LNBOARD_SIZE	1.848** (2.08)	6.403	8.43
AUDIT	-0.609 (-1.00)	0.544	2.26
ROA	0.154 (0.12)	1.166	2.02
BS_ACCRUALS	0.011 (0.15)	1.011	1.15
SALESGR	-0.047 (-0.07)	0.954	1.26
Constant	2.332*** (-1.70)		
Industry dummies	Yes		
Observations		111	
Chi-squared		20.06	
Pseudo R2		13.52%	

[34] Although the VIF for CEO_CHAIR (26.37) is high, suggesting multicollinearity, we see in *Table A.2* that correlation or bivariate relationship between CEO_CHAIR and the other variables is not substantial. The VIF for the remaining variables are within an acceptable range (Chatterjee & Price, 1991) and omitting CEO_CHAIR from the model does not notably change the results, hence we accept the VIF and do not consider multicollinearity to be an issue in the model.

6 Concluding Discussion

6.1 Conclusion

In this study, we examine what types of firms restate and why firms restate in a Swedish private setting. The first part of our paper sets out to understand what type of firms restate and aims to connect the Swedish context with adjacent research. The second part of this paper aims to expand the understanding of why firms restate, despite that restating an error by reissuing an old report goes against the guidance from Swedish authorities. Our research is motivated by the discrepancy between ample research on listed firm restatements and the relative lack of knowledge on how restatements materialize in private firms. Although it is recognized that private firms act in self-interest when regulatory ambiguity exists (Laschewski and Nasev, 2021), it has previously not been known what implications accounting restatements may provoke for private firms.

To answer this paper's first research question, we use a multivariate regression model, inspired by Clatworthy and Peel (2013; 2021) and based on previously established characteristics for restatements firms. We contextualize Swedish restatements and show that the type of firms that restate included in our study are to a large extent consistent with prior findings. Similarly to Clatworthy and Peel (2013), we find that firms that are less often audited, younger, and financially distressed are more likely to restate their financial reports. However, our findings of different debt structures and dissimilarities with public firm characteristics (higher growth and profitability) insinuate that the institutional context influences what types of firms that restate. These findings underscore the current knowledge gap and accentuate our study's contributions.

Second, by examining why firms restate their financial reports, we show that the restatements are primarily initiated by the firms themselves, oftentimes time sensitive and fundamentally conducted to achieve better outcomes than derived from the initial report. The main motives to restate provided during the interviews were attributed to avoiding tangible consequences, damaging outside perception or low organizational knowledge. The fact that firms restate because they perceive that the benefits outweigh the consequences, demarcates a significantly contrasting role of restatements compared with prior research, where firms are compelled to restate and experience predominantly negative consequences. Thus, it appears that accounting restatements, in our context, pinpoint the tension between regulatory standards and financial reporting behavior by enabling incentivized firms to bypass guidance that most other firms comply with.

Further, we find that several firms are not aware of the guidance not to reissue reports. Interestingly, this underscores the informal manner of how administrative guidance, e.g., reissuing financial reports in our case, are regarded by both enforcers and firms, highlighting further differences with the existing view of the role of restatements. Continuing the analysis of why firms restate, we operationalize and generalize our interview findings and show that, on an aggregated level, high financial proficiency, and the desire to avoid tangible consequences, such as avoiding a deteriorating credit rating, are associated with a higher likelihood of reissuing financial reports. The results reinforce parts of our interview findings by showing that several of the non-financial differences, capturing the motives to restate, are to a larger degree associated with firms that restate.

Our findings, suggesting that firms utilize restatements for self-serving activities, evidence that there exist deficiencies in the current system. As evidenced in our interviews, firms reissue financial reports to avoid damaging consequences or amend insignificant accounting errors, without suffering notable consequences. Without proper enforcement, the current inconsistency in comprehension and ambiguity of the administrative guidance creates an uneven playing field and a loophole that firms can abuse. On one hand, the current system enables firms that make "honest" material accounting errors a chance to correct them and avoid detrimental damage, which increases disclosure quality and decreases information asymmetry. On the other hand, however, allowing for easier corrections of errors could lead to a laxer attitude towards financial reporting, which could decrease overall accounting and disclosure quality. Ultimately, investigating how restatements should be regulated is not the focus in this paper, but we contend that our findings, highlighting current deficiencies in the reporting standards and their enforcement, add a new perspective to the discussion, interpretation and implementation of reporting regulation and are thus of interest for researchers, regulators, and practitioners alike.

6.2 Limitations and Suggestions for Future Research

This study is subject to some limitations worth bringing up. First, as we conduct interviews of private firms restating, we are limited to one perspective in the restatement process. Gathering data by interviewing other initiators and stakeholders, such as Bolagsverket, Skatteverket, UC and auditors, could have provided us with fruitful avenues in understanding why firms restate, stakeholders' connections with firms and the effects of restatements. For instance, considering additional perspectives from UC would have clarified the linkage between errors occurring, or restatements, with credit agencies' assessments. Since we cannot fully assert if a bad credit rating correlates with the error itself or the restatement, cross-examining with a credit agency would have provided us with more knowledge of the variables pertinent when assigning a rating. Only covering the perspective of the firms also creates a selection bias, where it might be possible that we only get a specific type of answer that the firms are comfortable providing. Accordingly, increasing the interview scope by taking into consideration additional viewpoints from stakeholders is a reasonable path for future research.

Second, the study is to an extent limited by sample size and data availability. Due to data availability, *Sample 1* does not include all variables incorporated by Clatworthy and Peel (2013), such as board size and board gender composition, which presumably would have made our findings more compatible with prior research. In investigating why firms restate the study is limited by the relatively small sample (n=40), implicating that our results could be skewed by extreme observations, and that we lack a degree of robustness in *Model 2*. Future research can mitigate these limitations by including more data, both in terms of size and for multiple periods. Including data for several years, particularly before and after the restatement taking place, would have provided us with more foundation of the effects following the restatement. Thus, one suggestion for future research could be to investigate and follow up the consequences of restatements more clearly with panel data. On the same note, researching restatements over time could allow for the investigation of systematic utilization of restatements and to explore if there are stronger consequences for firms restating multiple times.

Lastly, an important distinction between our findings and prior literature is that the restatements we refer to differ in the sense that it is performed by reissuing a new report despite the guidance not to. This causes some limitations in a one-to-one comparison between our findings and prior literature. In particular, since firms in our samples restate because of a perceived benefit outweighing the perceived negative consequences, this contrasts the reason for restating by firms in prior literature. Thus, in order to complement our findings, future research could examine either the consequences of private firms restating in accordance with the accepted guidance, or look at restatements contravening the administrative guidance in other accounting settings. All in all, there are many compelling directions for future research, and we hope that this study's findings will motivate their investigation.

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Appendices

A. Data Processing

Table A.1

Sample selection

This table presents the sample selection process, detailing criteria used as well as number of observations dropped in each filtering step. The final sample selection resulted in 624 (291,028) restatement (non-restatement) firms in *Sample 1* and 38 (76) restatement (non-restatement) firms in *Sample 2*.

	Observations dropped	**No. observations**
Panel A: Constructing Sample 1		
Private consolidated and independent legal entity accounts 2013	-	421,904
Less consolidated accounts	8,248	413,656
Less firms with missing data on independent variables	122,004	291,652
Full sample available for analyses		291,652
Non-restatement firms		291,028
Firms that restated their 2014 annual report		624
Panel B: Constructing Sample 2		
Private consolidated and independent legal entities that restated in 2021	-	1,588
Less firms not randomly selected for interviews	1,446	142
Less firms not available/willing participate in interviews	102	40
Restatements firms available for analyses		40
Matched Restatement Firms	2	38
Matched non-restatement firms, constructed on same basis as Panel A	348,632	76

Table A.2

Correlation Matrix Sample 1 & 2

Table A.2, Panel A and Panel B present the Pearson and Spearman correlation coefficients of the dependent and independent variables in equations and 3 for *Sample 1* and *Sample 2*. The correlation tests show no sign of multicollinearity since the correlations between our variables are all well below 0.7. Looking at our dependent variable RESTATE, we see that it is positively correlated with factors associated with financial distress and negatively correlated with age and audit status, aligning with adjacent literature's findings. Interestingly however, is that we see a positive correlation between sales growth and profitability measure (ROA and FINPER), opposing the signs we expect to see (although close to zero). See *Table 1* and *Table 3* for definitions of the variables. The table presents Pearson (bottom left triangle) and Spearman (top right triangle) correlation coefficients for our variables across the full sample (Panel A) and the interview sample (Panel B). The coefficients highlighted in bold are not significant at the 5% level.

Panel A: Sample 1, What Type of Firms Restate

Variables	RESTATE	AGE	LEVER	NEGEQ	NEGWCAP	RETPROF	FAIL	AUDIT	EBIT/ ASSETS	SALESGR	TRADE-CREDIT	FINPER
RESTATE		-0.0105	**0.0017**	**0.0027**	0.0014	0.0061	0.0092	-0.0165	0.0061	0.0102	**0.0029**	**0.0041**
AGE	-0.0082		-0.1236	-0.0384	-0.0432	-0.0621	-0.0059	0.2182	-0.0961	-0.1135	0.0302	0.0073
LEVER	**-0.0007**	-0.0046		0.3765	0.4380	-0.1401	-0.0431	0.1605	-0.1042	0.1170	0.3674	-0.1611
NEGEQ	**0.0027**	-0.0423	0.1032		0.3352	-0.1687	0.0422	-0.0652	-0.1643	-0.0627	0.1180	-0.1261
NEGWCAP	**0.0014**	-0.0339	0.0463	0.3352		-0.1451	0.0064	0.0701	-0.1773	0.0125	0.0438	-0.1696
RETPROF	**0.0002**	**-0.0001**	-0.0288	-0.0249	-0.0144		-0.0553	-0.0042	**0.6939**	0.2525	-0.0138	0.5351
FAIL	0.0092	-0.0060	0.0192	0.0422	0.0064	-0.0049		0.0378	-0.0729	-0.0829	-0.0763	-0.0472
AUDIT	-0.0165	0.1660	-0.0090	-0.0652	0.0701	**-0.0017**	0.0378		-0.0062	0.0330	0.2031	0.0551
EBIT/ ASSETS	0.0048	-0.0550	-0.0421	-0.2213	-0.1826	0.1449	-0.0587	-0.0248		0.3222	0.0147	0.5672
SALESGR	0.0112	-0.0768	**-0.0008**	-0.0058	0.0131	0.0136	-0.0195	-0.0439	0.1335		0.1142	0.1757
TRADE-CREDIT	0.0038	-0.0325	0.0373	0.2747	0.1039	-0.0047	-0.0190	0.1052	-0.1192	0.0106		0.0216
FINPER	0.0041	0.0066	-0.0132	-0.1261	-0.1696	0.0590	-0.0472	0.0551	0.4470	0.0521	-0.0448	

(Continued)

Panel B: Sample 2, Why Firms Restate – *Continued*													
Variables	RESTATE	WARSIG	PFAIL	TAX _ALLOC	NET-WORK	LN CEOYEAR	CURRENT _POS	CEO _CHAIR	LNBOARD _SIZE	AUDIT	ROA	BS_ACC-RUALS	SALESGR
RESTATE		**0.1323**	**0.1604**	**0.0315**	**0.048**	**0.0221**	**0.118**	**-0.1239**	**0.1829**	**-0.0352**	**-0.0197**	**0.0605**	**0.0562**
WARSIG	**0.0971**		**0.0046**	**-0.0323**	**0.0944**	-0.1987	**0.092**	**-0.1228**	**0.0312**	**-0.0339**	**-0.0223**	**-0.0941**	0.1812
PFAIL	**0.0157**	**-0.0575**		0.213	**0.0797**	**-0.156**	**0.0365**	-0.2134	0.1721	**0.223**	**-0.3141**	**0.0998**	0.2194
TAX _ALLOC	**0.0248**	**-0.0591**	**-0.1557**		**0.0384**	**0.0779**	**-0.0843**	**-0.0471**	**-0.0351**	**0.0693**	**0.1489**	**0.0724**	**0.1387**
NETWORK	**0.0315**	**0.0048**	**-0.0612**	**-0.1182**		**-0.011**	0.8863	**-0.0923**	**0.0934**	0.2032	**0.0724**	**0.1355**	**0.0495**
LN CEOYEAR	**0.0379**	-0.2459	**-0.0908**	**0.0553**	**0.0403**		**-0.0918**	0.1879	-0.2877	**-0.0972**	**0.101**	**0.0378**	-0.1628
CURRENT _POS	**0.1256**	**0.0021**	**-0.0533**	**-0.1191**	0.8039	**-0.0404**		**-0.0641**	0.1789	0.189	**0.0793**	**0.1293**	**0.0787**
CEO_ CHAIR	**-0.1212**	**-0.1089**	**-0.0064**	**-0.0504**	**0.003**	0.2425	**-0.0154**		**-0.068**	-0.205	**0.1679**	**0.0742**	**0.0422**
LNBOARD _SIZE	**0.1596**	**0.0854**	**0.0417**	**-0.056**	**0.0123**	-0.3183	**0.0515**	**-0.0531**		0.3349	**0.0196**	**0.038**	**0.1696**
AUDIT	**-0.0259**	**0.0088**	**0.042**	**0.0446**	**0.0917**	**-0.1807**	**0.1508**	-0.1965	0.3651		**-0.0194**	**0.1391**	**0.0816**
ROA	**0.0032**	**-0.0029**	-0.3339	**-0.0148**	**0.058**	**0.1218**	**-0.013**	**0.1491**	**-0.015**	**-0.0554**		**0.0546**	**0.0736**
BS_ACC-RUALS	**-0.0011**	**-0.0104**	**-0.0199**	**-0.0053**	**0.0067**	**0.0256**	**0.048**	**0.0114**	**0.0214**	**0.1056**	**-0.1434**		**0.0465**
SALESGR	**0.0135**	0.264	**0.0806**	**0.1024**	**-0.0747**	-0.2305	**-0.0297**	0.0304	**0.1776**	**0.0309**	**0.0528**	**-0.0515**	

B. Supplemental Data

Table B.1

Types of Restatements from Sample 1

Table B.1 presents the types of restatements disclosed by the 1,137 firms restating their 2014 annual report. Out of the total sample only 33.5% of the firms' financial reports included the written request ("följebrev"), revealing what information was restated. Of the 381 disclosing firms, 168 restatements were material, 127 were immaterial, and 86 firms provided no explanation for the restatement. Primary types of restatements in the respective categories are *Other material content incorrect/selection(s) missing* and *Miscellaneous errors*, suggesting a considerable dispersion in the observed types of restatements.

	No. observations	Frequency
Total	1,137	*100.0%*
Non-disclosed	**756**	***66.5%***
Material	**168**	***14.8%***
Other material content incorrect/section(s) missing	138	*12.1%*
Errors in financial figures	30	*2.6%*
Immaterial	**127**	***11.2%***
Miscellaneous errors	109	*9.6%*
Rounding errors	18	*1.6%*
No explanation provided	**86**	***7.6%***

Table B.2

Descriptives of What Type of Firms Restate - Segmented at Level of Materiality

Table B.2 presents financial statement information at the end of 2013 for firms restating their 2014 annual reports, split on level of disclosure and materiality. Panel A includes 97 observations, Panel B 131 observations and Panel C 396 observations. The table provides the metrics mean, standard deviation, 25th percentile, median and 75th percentile. LNSIZE (Size) is the natural log of total assets, AGE (Company Age) is the natural log of the company's age, LEVER (Leverage) is the total liabilities to total assets, NEGEQ (Negative Equity) is if the company has negative equity, NEGWCAP (Negative Working Capital) is if the company has negative working capital, RETPROF (Retained Profit) is the retained profit (change in retained earnings) to average of total assets, FAIL (Company Failed) is if the company failed up to 2 years after accounts were filed, AUDIT (Auditor) is if the company had an auditor, EBIT/Assets (EBIT to Assets) is the EBIT to average of total assets, SALESGR (Sales Growth) is the growth in sales between two fiscal years, BS_ACCRUALS (BS Accruals) is the change in net operating assets/average net operating assets, TRADECREDITS (Trade Credits) is the trade credit to total assets, and FINPER (Financial Performance) is if the company had ROA above industry average. In line with expectations, firms submitting material restatements are approximately similar in size but are less likely to have an appointed auditor, are more likely to fail within two years of filing and are more reliant on trade credit as a financing source. Interestingly, firms filing immaterial restatements are on average older and significantly less profitable than both firms disclosing material restatements or those without disclosures. *(Continued)*

	Panel A: Firms with Material Restatements (n=97) – *Continued*				
	Mean	Std. dev.	p25	Median	p75
LNSIZE	14.07	1.63	12.73	13.89	15.32
AGE	12.44	12.46	3.00	8.50	19.00
LEVER	0.94	2.05	0.38	0.59	0.80
NEGEQ	0.07	0.26	0.00	0.00	0.00
NEGWCAP	0.20	0.40	0.00	0.00	0.00
RETPROF	0.01	0.07	0.00	0.01	0.03
FAIL	0.08	0.28	0.00	0.00	0.00
AUDIT	0.44	0.50	0.00	0.00	1.00
EBIT/ASSETS	14.5%	35.0%	-0.3%	7.0%	29.0%
SALESGR	141.3%	318.9%	-12.9%	13.9%	87.4%
BS_ACCRUALS	1.17	7.12	-0.17	0.04	0.80
TRADECREDIT	9.6%	12.9%	0.2%	3.7%	15.9%
FINPER	0.49	0.50	0.00	0.00	1.00
	Panel B: Firms with Immaterial Restatements (n=131)				
	Mean	Std. dev.	p25	Median	p75
LNSIZE	14.58	2.04	13.06	14.40	15.84
AGE	15.20	13.24	5.00	11.00	22.00
LEVER	1.04	2.86	0.39	0.69	0.87
NEGEQ	0.06	0.24	0.00	0.00	0.00
NEGWCAP	0.24	0.43	0.00	0.00	0.00
RETPROF	-0.02	0.13	-0.01	0.00	0.01
FAIL	0.08	0.28	0.00	0.00	0.00
AUDIT	0.59	0.49	0.00	1.00	1.00
EBIT/ASSETS	1.9%	36.5%	0.0%	4.5%	17.4%
SALESGR	47.0%	193.1%	-14.8%	0.3%	32.5%
BS_ACCRUALS	-0.03	2.23	-0.25	0.03	0.43
TRADECREDIT	8.6%	11.7%	0.0%	3.8%	15.6%
FINPER	0.48	0.50	0.00	0.00	1.00
	Panel C: Firms with undisclosed Restatements (n=396)				
	Mean	Std. dev.	p25	Median	p75
LNSIZE	14.39	1.85	13.10	14.21	15.63
AGE	11.69	12.43	3.00	8.00	18.00
LEVER	0.65	0.58	0.41	0.64	0.83
NEGEQ	0.06	0.23	0.00	0.00	0.00
NEGWCAP	0.19	0.39	0.00	0.00	0.00
RETPROF	0.01	0.10	0.00	0.00	0.03
FAIL	0.05	0.22	0.00	0.00	0.00
AUDIT	0.49	0.50	0.00	0.00	1.00
EBIT/Assets	11.4%	30.8%	-0.6%	7.2%	25.1%
SALESGR	43.4%	178.3%	-18.8%	4.9%	32.8%
BS_ACCRUALS	0.33	5.31	-0.44	0.05	0.72
TRADECREDIT	9.0%	13.1%	0.0%	2.6%	14.2%
FINPER	0.54	0.50	0.00	1.00	1.00

Table B.3

Interviews in Detail

Table B.3 includes the interviews conducted in detail. The questions included in the table were asked during the interviews that were conducted with restatement firms during October 2022. Besides asking why the firms restated, we collected additional information to attain further depth of the motives. Understanding what the firm restates provides insight on if the error was material or not. Further, asking who found the error, who initiated the restatement and what role the auditor had provided details in the stakeholder composition and if the firms are being influenced by other parties. In addition, this conveys which initiator lacks the knowledge of the guidelines not to restate and submit the amended report. Answering if the restated report was board-approved gives additional insights in the restatement process. The last question reveals if the firm recognizes benefits to restate, and if these benefits outweigh the negative consequences of not restating retrospectively. During the interviews, we also asked the interviewees to walk us through the process, i.e., timeline and parties involved. Due to extensive replies, this is not included in the table. During the interviews, additional discussions were held that is not fully covered in Table B.3, e.g., the entailing of if the firms were aware of the administrative guidance not to restate by reissuing a new report. Information about audit status was retrieved from Business Retriever. Information about Material information was determined based on what type of restatement the specific firm performed. (*Continued*)

Company	Auditor	Material information	Why did you submit the restatement?	What did you restate?	Who found the error?	Who initiated the restatement?	What was your auditor's role in the process?	Did your board-approve the restated report?	View on the consequences of submitting/not submitting the restatement
#1	No	Yes	Reduce tax obligation and avoid liquidation	Multiple accounts	Accountant	Accountant	N/A	Yes	Consequences of not restating outweigh potential consequences of restating
#2	No	Yes	Bolagsverket did not receive the AR correctly	Nothing	Accountant	Accountant	N/A	No	The most important is that the information is correct
#3	No	Yes	Data loss leading to knowingly filing incorrect ARs	IS/BS	Company	Company	N/A	Yes	Important to have correct numbers for Skatteverket. Negative consequences could be that you draw attention to the financials
#4	No	Yes	To correct a mistake	Valuation of equity	Company	Company	N/A	Yes	The most important is that the information is correct
#5	Yes	No	The auditor identified the error, informed about it and recommended to restate	Note 7. Average employees	Auditor	Auditor	Identified the error, informed about and recommended restating	Yes	It is more important to be correct. Consequences of stating wrong information are more severe than restating information
#6	Yes	Yes	Information was missing	Director's report	Company	Company	Not included	No	No view
#7	Yes	Yes	All figures wrong because of errors in internal system	1st time: All figures, 2nd time: Auditor's report	Clients and suppliers	Clients and suppliers	Missed the errors	Yes	Important to report correct
#8	No	Yes	Director's report missing because of internal system	Director's report	Company	Company	N/A	Yes	Important to report correct
#9	No	Yes	All figures produced by internal system were wrong	IS/BS	Company	Company	N/A	Yes	Important to report correct
#10	No	Yes	Book value incorrect, Balance sheet did not balance	Book value of Equity	Accountant	Company	N/A	Yes	Important to report correct

Company	Auditor	Material information	Why did you submit the restatement?	What did you restate?	Who found the error?	Who initiated the restatement?	What was your auditor's role in the process?	Did your board-approve the restated report?	View on the consequences of submitting/not submitting the restatement
#11	No	Yes	Pension tax	Taxation	Company	Skatteverket	N/A	Yes	It needs to be correct towards Skatteverket, we did not want to pay a fee
#12	No	Yes	IS/BS figures were wrong	IS/BS	Company, accountant and Bolagsverket	Accountant	N/A	Yes	Important to report correct
#13	No	Yes	Text about dividend pay-out missing, Bolagsverket did not register dividend	Text	Company	Bolagsverket	N/A	No	It was not material
#14	No	Yes	Error in periodiseringsfond	Periodiseringsfond	Company	Company	N/A	Yes	It was not material
#15	Yes	Yes	Did not know that they were obliged to be audited	Added Auditor's report	Auditor	Auditor	Audited and added Auditor's report	Yes	It was not material
#16	No	No	Can't remember	Insignificant detail	Company	Company	N/A	Yes	Important to avoid consequential errors
#17	Yes	Yes	To get valid credit rating	Added BS	Credit rating agency	Credit rating agency	Assessed, created and approved new AR	Yes	Receive bad credit rating, souring external relationships
#18	No	No	To have a nice-looking AR (since she was an accountant herself)	Header in note 3	Company	Company	N/A	Yes	We need to think about reputation/appearance since we operate our own accounting practice
#19	No	Yes	Bolagsverket reached out regarding missing information	Wording of dividend distribution	Bolagsverket	Bolagsverket	N/A	Yes	Potentially receive fines or reprimand from Bolagsverket
#20	No	Yes	Received bad credit rating from credit rating agency	Equity and liabilities	Credit rating agency	Company	N/A	Yes	Important to be correct, could affect credit rating and external relationships

Company	Auditor	Material information	Why did you submit the restatement?	What did you restate?	Who found the error?	Who initiated the restatement?	What was your auditor's role in the process?	Did your board-approve the restated report?	View on the consequences of submitting/not submitting the restatement
#21	Yes	Yes	Bolagsverket reached out regarding missing information	Auditor's report	Bolagsverket	Bolagsverket	Supervised the new filing	Yes	Nothing major. Although beneficial to be in good standings with Bolagsverket
#22	No	Yes	Avoid tax obligations	Dividend, tax obligation and liabilities	Company	Company	N/A	Yes	No, the system was built in such way so he could utilize the deficiencies
#23	Yes	No	Correct the wrong date	Date on Financial statements approval	Accountant	Accountant	Missed the errors	Yes	Did not see it as a big deal. Would have been if it was financial figures and tax
#24	No	Yes	Error in internal accounting system Visma	Book value of Equity	Company	Company	N/A	Yes	It was necessary to correct, otherwise they could not operate
#25	Yes	Yes	Bolagsverket reached out regarding missing Auditor's report	Auditor's report	Bolagsverket	Bolagsverket/Auditor	Approved	Yes	Small error and they trusted their auditor
#26	No	Yes	Error from ÅR online led to too high tax obligations	Tax calculations	Company	Company	N/A	Yes	Could potentially be required to pay higher taxes than necessary (despite correct tax filing)
#27	Yes	Yes	Bolagsverket reached out regarding missing information	Pages missing	Bolagsverket	Bolagsverket	Oversaw process and submitted the new version	Yes	No opinion. Trusted auditor's recommendation
#28	No	No	To include all signature necessary	Added signature	Company	Company	N/A	Yes	Scared of being in bad standing with Bolagsverket (although nothing specific)
#29	No	Yes	To avoid consequences of inadequate report	A page was missing	Company/Creditsafe. Faulty/no credit score was given by Creditsafe	Company	No	Yes	Necessary, could block various registers and effect credit rating agencies and creditors perception of the financial performance of the firm
#30	Yes	Yes	To have a complete AR	Missing page	Bolagsverket notified about the missing page	Company/Auditor	Yes	Yes	Maybe fines, but nothing specific. Most important to have the correct information.

Company	Auditor	Material information	Why did you submit the restatement?	What did you restate?	Who found the error?	Who initiated the restatement?	What was your auditor's role in the process?	Did your board-approve the restated report?	View on the consequences of submitting/not submitting the restatement
#31	Yes	No	Summation error, resulting in wrong profit	Summation	Company	Company	Nothing, missed the error	No	We were not afraid of consequences, wanted to send in new version fast, since it's illegal to send in the report too late
#32	Yes	Yes	Credit rating agency gave bad rating. Supplier called and wanted to close the credit line	AR wasn't uploaded correctly	Credit rating agency	Company	Made the mistake but then helped amend the report	Yes	We faced consequences of lower credit rating and worse supplier relationship
#33	No	Yes	Income statement and balance sheet wrong because of the errors	Depreciation and labour costs	Accountant	Accountant	N/A	Yes	Not a big deal, just corrected it
#34	No	Yes	Accountant made the mistake, should not have been any dividend	Dividend payment incorrect	Company	Accountant	N/A	No	Not afraid to send in a new report, just wanted to correct it
#35	No	No	Correct signature/date	Signature/date	Accountant	Accountant	N/A	Yes	It feels like you are stuck in the middle; reporting incorrect information is wrong, but restate the information is also wrong
#36	No	Yes	Faulty AR led to an insufficient credit score, couldn't make a purchase	Wrongly uploaded AR	Company	Company	N/A	Yes	If I didn't restate I wouldn't be able to run my business as desired due to the bad credit rating.
#37	No	Yes	Dividend booked as wrong direction	Dividend	Accountant	Accountant	N/A	Yes	It needs to be correct
#38	No	Yes	Retained profit and other operating expenses were incorrect, needed to correct to get a rating	Retained profit and other operating expenses	Company	Company	N/A	Yes	You need to have correct figures so that you get a credit rating
#39	No	Yes	Profit and hence IS/BS incorrect, generated by the internal accounting system	Profit	Credit agency	Company	N/A	Yes	You need to have correct figures so that you get a credit rating
#40	No	Yes	Bolagsverket contacted about the missing information	Retained profit was missing	Bolagsverket	Bolagsverket	N/A	Yes	There wouldn't be any consequences, since information was correct initially, they hadn't done anything wrong