



INFLUENCE OF GLOBALIZATION AND INTEGRATION PROCESSES ON ACCOUNTING REGULATIONS ON THE EXAMPLE OF POLAND

Małgorzata Kamieniecka, Department of Accounting, Faculty of Economics, Maria
Curie-Skłodowska University in Lublin, Poland
malgorzata.kamieniecka@poczta.umcs.lublin.pl

ABSTRACT

Purpose: *The growing internationalization of the economies of individual countries, imposes on the national regulators the processes of harmonization and standardization in the accounting rules. The last 20-30 years, we have witnessed significant transformation of financial reporting of companies (changing forms of presentation and content of the reports). These changes result from the transformation of national economies caused by: 1) internal processes (change of ownership, the appearance of new legal forms of business and new financial instruments, changes in management methods, etc.), 2) external processes (increasing globalization and integration). This second group of factors is particularly important in countries such as Poland, which, in a relatively short period of time, restructured its economic system from state-controlled economy to a market economy, at the same time, intensively joined the European integration, thus implementing a number of regulations applied by the EU. The purpose of this paper is to determine the effect of changes in accounting regulations caused by the processes of globalization and integration (mainly European) on a national accounting model.*

Conclusions and findings: *The processes of globalization and integration have a significant impact on changes in national accounting models. These changes are intended to ensure the comparability of the effectiveness of the companies in transnational scale. The most important influence on the financial reporting in Poland, during the system transformation, had the EU Directive, and in the last 10 years - IFRS. However, it should be noted, that at this stage of development, it is not yet possible to fully standardize financial reporting, even in countries belonging to the same economic and cultural region of the world.*

Practical implication: *The structured knowledge about the experience in the implementation of international practices and regulations of the accounting of given country makes it easier to predict the possible reaction of business practice and legislation changes in the future (will allow predict the speed and depth of changes and the level of acceptance and perception of new reporting requirements, both by preparing reports, as well as the users of these reports). This knowledge is particularly important for policy makers and regulators because will allow them to plan properly the process of legislative changes.*

Design/methodology/approach: *The research methodology will include an analysis of the foreign and Polish literature on the subject, the review of polish, EU and worldwide accounting regulations, the inductive and deductive methods. The inductive method should prove useful in analysing the literature and law. The main conclusions will be drawn using scenario of deductive methods.*

Originality/value: *A number of scholarly articles on the changes in Polish accounting regulations in the last 20-25 years were published so far. However, they lack a clear indication of the relationship of these changes to the global processes of globalization and European integration. This article is an attempt to fill this gap.*

INTRODUCTION

The expectations of both external and internal financial information recipients have been growing, along with progressing globalisation. This forces accounting regulations to provide for universal presentations of data coming from financial statements. Harmonisation leading to higher comparability, followed by standardisation reflected in consolidated principles of identifying, measuring and reporting property and resultant items, have become common. Such processes are triggered by globalisation-induced capital-market integration around the world, and by the opening of domestic markets to foreign-investment companies, together with the simultaneous expansion of domestic entities beyond their country of origin.

Both individual investors and public institutions, including supervisory bodies, are more likely to appreciate the benefits flowing from commonly-known and universally-recognised financial-reporting frameworks, based on strong and globally-accepted accounting standards. These benefits include, in particular, better data comparability, higher willingness and better opportunities to invest abroad, more efficient asset allocation, lower capital costs, and higher dynamics of economic growth.

This article is aimed at determining the impact of changes to accounting regulations caused by globalisation and integration processes (mainly in Europe), on the domestic-accounting model. The analysis of changes to balance-sheet law partly covers the factors resulting from the systemic transitions which occurred in the Polish economy. The reporting entities' reaction to the amendments to Polish balance sheet law will also be examined.

The methodology of this study comprises an analysis of both foreign and Polish literature on the subject matter, a survey of Polish, European and global accounting provisions, and an outline of various studies on related issues.

Polish accounting prior to the systemic transitions

Prior to the Second World War, Polish accounting was governed by the Commercial Code of 1934, which merely laid down some general report-drafting principles to be followed by economic units (CC, 1934). It is argued that accounting at that time mainly served fiscal purposes (Foremna-Pilarska and Radawiecka, 2007).

The German occupation during the Second World War had a considerable influence on Polish accounting. This was when it acquired the continental features which are still to be observed. The first Uniform System of Accounts, which entered into force on 1 January 1946, was also based on German solutions (and, more specifically, on the German system of accounts and on its equivalent – the system of accounts of the General Government). The Uniform System of Accounts not only contributed to consolidating numerical data in the overall economy but also facilitated, through its flexible approach, adjustments to the specificity of a given sector or entity (at this point, the considerable freedom of costs measurement and reporting should be noted) (Jaruga and Szychta, 1997).

A few years after the War, Poland accepted the accounting solutions applied in the Soviet Union. Accounting was at that time oriented towards satisfying the needs of government planners, performing mainly control functions. The content and methods applied in the

accounting system were specified in more detail within the legal regulations. Together with the diversification of various economic divisions, in 1950 the Uniform System of Accounts was replaced by the Industrial System of accounts. This marked the end of the flexible approach, which was reflected by a detailed specification of the correspondence in accounting (apart from the economic content). Then introduction of the framework system of accounts in 1952, entirely based on Soviet solutions (entailing opting out of the use of the structure of costs by type and the overextended system of accounts) turned out to be the most disadvantageous change. Furthermore, the duplicated accounting technique was replaced by registered accounting (Biadacz, 2012).

Since around 1960, Polish solutions have prevailed over the Soviet ones. In 1959, a new system of accounts for socialised economic entities was introduced (which then provided the basis for establishing industrial systems, regarded as typical). Its form resembles Western European solutions, while its content was tailored to the needs of a centrally-steered economy. Another reform, dating back to 1976, facilitated aggregating reporting data countrywide by various sectors, including industries, branches, and divisions or fields of the national economy. According to the author of this study, this reform could serve as a concrete example of setting the contemporary directions of changes related to registering obligations. The first economic reforms at the outset of the 1980's (referred to as the thawing period) marked another turning point by introducing the possibility of using personalised in-house accounting systems (Jaruga and Szycha, 1997).

The reference period, from the point of view of this study, can be briefly characterised as the period of transitions in Polish accounting, caused firstly by German, and then by Soviet, influences.

Polish accounting regulations in the transition period towards a market economy

The beginning of the 1990's in Poland brought significant changes to economic entities, resulting from systemic and economic transformations. The shaping of free-market economy and the openness towards international cooperation forced the reconstruction of accounting paradigms. Amendments to balance-sheet law had to be profound, and their pace adjusted to political and economic developments. It had to be fast enough to foster these developments and, at the same time, properly timed to let the units concerned pursue preparatory processes related to IT systems and staff training. However, it should be noted that balance-sheet reform was facilitated by the relatively strong position of accounting theorists who had established contacts with global experts. Moreover, certain sections of general accounting theory (e.g. evidence-modelling theory and the deductive theory of the systems of accounts) were highly innovative, providing a valuable contribution to global expertise at that time (Brzezin, 1995).

At the outset of the transformation period, substantial changes were introduced to accounting legislation. The Regulation of the Minister of Finance (of 15 January 1991) on the rules of book-keeping entered into force as of 1 January 1991. It was the first Polish Act of law entirely devoted to accounting, separating it (not yet fully but to a large extent) from fiscal law. In line with the idea to strengthen the country's integration with Western European countries, this Act was based on the Fourth Directive of the EEC (today the EU). Poland established a diplomatic relationship with the European Economic Community in September

1989 (although until 1989 it had belonged to the Council for Mutual Economic Assistance, competitive with the EEC), and the agreement between Poland and the EEC was signed on 19 September 1989. Therefore, the amendments to balance-sheet law resulted, to a large extent, from political and economic decisions aimed at associating with Eastern European countries. Nevertheless, according to the author, these were internal processes that exerted a more important influence on the amendments to balance-sheet law at that time, including the fundamental property transitions to foster private-sector growth¹, the liquidation of monopoly structures, the price liberation and the activation of the capital market. The newly-introduced regulation governed such issues as the principles of book-keeping, stock-taking, the determination of the financial result, the principles of assets and liabilities valuation, accounting evidence and reporting. A uniform structure for the balance sheet, and the profit-and-loss account was established (The Regulation of 1991).

The reference Regulation was in line with the strategy of establishing an appropriate institutional and legal framework conducive to systemic transitions and, according to the author, it served its function exceptionally, paving the way for modern corporate reporting.

Nevertheless, as the Regulation failed to touch upon several crucial aspects of the economy (e.g. leasing, the consolidation of financial statements and the principles of drafting cash-flow statements), a number of issues remained under-regulated, and for some others alternative solutions were used. As a result, efforts were made to draft a new Act of law that would regulate accounting in a more thorough way. On 1 January 1995, the Accounting Act of 29 September 1994 came into force. Among the significant objectives that were adopted (which included determining, consolidating and stabilising the conditions to be complied with by accounting, ensuring the uniformity and transparency of accounting solutions, strengthening the position of accounting in line with the function it serves in the modern economy, and laying the ground for the provision of reliable and more detailed information for accounting purposes, useful in assessing the economic standing of various enterprises and institutions), the following are worth noting (Foremna-Pilarska and Radawiecka, 2007):

- further adjustments of Polish accounting solutions to the principles binding in EU countries (which proved especially important in the light of signing the Association Agreement with the European Community in December 1991, which entered into force on 1 February 1994, followed by an official application for the EU membership submitted by Poland in April 1994),
- attempts to adjust Polish accounting principles to the principles laid down in the International Accounting Standards (IAS) provided that:
 - they did not violate EU directives,
 - the application of international standards was feasible, given the development stage of the Polish economy at that time (as such a significant reconstruction of the entire economic system, which entailed the transition from a centrally-steered to a free market economy, is in principle a complex and long-lasting process, which is why in the mid-1990's the Polish economy was not yet ready to absorb the complex mechanisms of the IAS),

¹ In 1989 the GDP share of the private sector amounted to less than 30% and within nearly a decade it grew to approximately 75% (Rapacki, 2005).

considering the fact that when constructing the provisions of balance-sheet law, the legislator assumed that the directives had prevailed over international standards.

The harmonisation of Polish accounting provisions with the EU and international ones, at this development stage, was extremely significant, due to allowing foreign investments in the country and due to the inflow of international capital. In 1991-1995 the average annual dynamics of the growing inflow of foreign direct investments to Poland reached approximately 130% (including the order-book investments which proved significant, though their share in various years was subject to considerable fluctuations) (Weresa, 2002).

Based on the opinion of the European Council of 1997, Poland made considerable progress in establishing balance sheet law, in terms of its harmonisation with EU directives. The highest level of compliance was reached with the Fourth Directive (dated 1978 on the annual accounts of certain types of company) and with the Seventh Directive (dated 1983 on consolidated accounts) (Misińska, 2005). It should be borne in mind that financial reporting and accounting principles at that time were also referred to in three other directives:

- The Directive of 1986 on annual accounts and the consolidated accounts of banks and other financial institutions,
- The Directive of 1989 on the financial reporting of credit and financial institutions operating in Member States,
- The Directive of 1991 on annual accounts and the consolidated accounts of insurance establishments.

When compared to other countries, Poland internalised the above directives within its own legal system in an extremely short period, acting at an express pace. The average time span for introducing accounting directives to the domestic law of EU Member States was 10 years (e.g. the introduction of the Fourth Directive took 13 years in Italy, 11 years in Spain and 8 years in Greece).

Globalisation processes and the progression of European integration vs. Polish balance sheet law

The second half of the 1990's in Poland was a period of intensive efforts towards completing the Accession Agreement and being accepted as an EU member. To this end, the Committee for European Integration was established in August 1996 (whose aims included initiating and coordination adjustment work regarding legal institutions, as well as evaluating draft versions of legal Acts in terms of their compliance with EU laws), and the National Integration Strategy was enacted in January 1997. Poland launched the negotiations with the Council of Europe on 31 March 1998, which were preceded by screening, i.e. by examining the compliance of Poland's internal laws with Community laws. The partnership negotiations ended on 13 December 2002 and the Treaty of Accession was signed on 16 April 2003. Finally, Poland's accession to the European Union was effected on 1 May 2004. A survey of laws in terms of their harmonisation with EU regulations on balance-sheet law resulted in the so-called grand revision of the Accounting Act, introduced by way of the Act of 9 November 2000 on amending the Accounting Act, which became effective on 1 January 2002. The amendments were so considerable that the standard text of this Act was published in Journal of Laws of 2002, No. 76, Item 694. A relatively long *vacatio legis* of the new provisions was

applied to prepare enterprises for the incoming changes. The amendment work was also time-consuming and took over two years.

The new Act on amendments is considered to have become a modern Act of law, being much more practical in terms of the economic life of enterprises (Gnich, 2001).

The reference Act comprises 12 chapters, which comprehensively regulate the accounting principles in Polish entities, from book-keeping and stock-taking, to the valuation of assets and determination of the financial result, the settlement of company mergers, the reporting obligations of individual entities and capital groups, the audits and announcements of financial statements, and book-keeping services. The content of the reference Act is supplemented with annexes, including financial statement templates to be used by banks, insurance companies and other entities.

It is worth noting that the revision of the Accounting Act of 2000 was, to a large extent, also connected with the need to adjust domestic provisions to international standards, which had themselves undergone substantial changes in 1994 – 1999. This was reflected, i.a., by introducing IAS-based provisions (not regulated under EU directives) regarding property investments, equity instruments, and long-term contracts and mergers. Considerable changes also affected the principles of exchange-rate settlements and deferred-tax determination, along with introducing the notion of fair value and accuracy. The matters not regulated under the reference Act are subject to the domestic standards or the IAS.

Polish accounting at the outset of the 21st Century, as compared to the last decade of the 20th Century, absorbed certain features of Anglo-Saxon accounting (until 2000 it represented the typical continental model, with the caution principle dominating the true and fair view, and with significant, if not prevailing impact of tax principles over balance sheet guidelines). The emerging changes were also reflected in the establishing of the Accounting Standards Committee (ASC) by way of the Regulation of the Ministry of Finance (The Regulation of 2001).

The ASC operates within the Ministry of Finance and is comprised of accounting experts who represent various bodies participating in the establishing of accounting regulations (i.e. the Ministry of Finance, the Ministry of the State Treasury, the National Bank of Poland, and the Polish Financial Supervision Authority) and the largest professional accounting organisations (i.e. the Accountants Association in Poland and the National Chamber of Statutory Auditors) who delegate representatives of the scientific environment and auditing companies. In accordance with Paragraph 2 of the Regulation, the scope of activity of the Committee comprises:

- a) establishing new domestic accounting standards, along with surveying and updating the existing ones,
- b) issuing opinions on questionable accounting issues,
- c) evaluating draft versions of accounting Acts,
- d) analysing and evaluating draft versions of the IAS and their amendments,
- e) cooperating with international accounting standardisation organisations,
- f) undertaking other actions aimed at the harmonisation and standardisation of accounting principles.

The Committee cooperates with the European Financial Reporting Advisory Group (EFRAG) within the framework of the EFRAG "Pro-active Accounting" project, as its members form part of project working groups. The Committee analyses and evaluates international documents on an ongoing basis, including draft amendments to the International Financial Reporting Standards (IFRS), regarding the issues significant to Polish IFRS-affiliated entities.

So far (i.e. until April 2013), the Committee has issued:

- seven standards, i.e. No. 1. Cash-flow statements, No. 2. Income tax, No. 3. Unfinished construction services, No. 4. The impairment of assets, No. 5 Leasing and renting, No. 6. Reserves, - current calculation of periodic costs, and conditional liabilities, and No. 7. Changes in accounting principles (policies), estimated values, error correction, events after the balance-sheet date – approach and presentation;
- four opinions, i.e. on the accounting approach to property rights arising from the certificates of origin of energy produced from renewable sources, on determining the production costs for the purpose of the balance-sheet stock valuation, on the accounting approach to greenhouse-gas emission rights, and on certain principles of book-keeping;
- one recommendation on adopting the Code of Ethics for Professional Accountants.

The standards and opinions issued by the Committee are not absolutely binding (pursuant to Article 10, Paragraph 3 of the Accounting Act., In matters not regulated under the aforesaid Act, an entity may apply domestic accounting standards by referring to accounting principles (policy)). This non-obligatoriness is being strongly criticised in the accounting world and, as such, it may be subject to change as part of the next revision.

At the time when Poland was preparing its grant revision of the accounting Act, the European Commission realised that its accounting directives had failed to fully achieve the set objective, i.e. ensuring comparability of financial statements between the various Member States (the fundamental barriers included a protracted drafting, amendment and implementation process, together with the admission of alternative solutions) (Mućko, 2009). In consequence, in 2000 the European Commission decided² on further accounting harmonisation EU-wide, based on international standards.³ The fear of the wide introduction of American standards (developed by the FASB) to global economic practices served as an additional argument. It was, therefore, decided that global standardisation based on the IAS/IAFS would be a better solution, as these standards were established by the International Standards Council (formerly Commission) which is a private institution, independent (unlike the FASB) of any Government (Holban, 2011).

In order to implement the strategy, it was necessary to lay down adequate regulations allowing for the application of IAS within the Community. To this end:

- most of the binding standards were modernised or improved, and some were replaced. The revised IAS/IFRS and their interpretations were finally adopted in 2004,
- accounting directives were generalised and simplified.

² The document entitled *EU Financial Reporting Strategy: the way forward* was adopted in June 2000.

³ The first sign of the possible consolidation amendment to the EU financial reporting strategy, based on international standards, appeared in 1995, which was when companies listed on European stock exchanges were allowed to present consolidated IAS-based financial statements.

The legal basis for adopting IAS/IFRS as part of the Community legislation was provided by *Regulation No. 1606/2002 of 19 July 2002 of the European Parliament and Council on the application of international accounting standards*. The principal objective of the standardisation of IFRS-based financial reporting is to achieve more efficient and cost-effective functioning of the common capital markets and, in consequence, to foster the development of the internal EU market (The Regulation of 2002, Point 12).

In accordance with the Regulation, individual IAS/IFRS are included in EU law by way of executive regulations, provided that they satisfy the comprehensibility, usefulness, reliability and comparability criteria to be satisfied by financial information which is necessary to make economic decisions and to assess the management model. Pursuant to Point 11 of the justification of the Regulation, the IFRS approval mechanism shall function efficiently and provide a forum for the debate, consideration and exchange of information on international standards between the parties concerned, including in particular the entities in charge of developing domestic accounting standards, the securities market supervisory bodies, the bank and insurance supervisory bodies, the central banks, including the ECB (The European Central Bank), the professional environment of accountants, and users and entities drafting financial statements. This mechanism should serve as a means conducive to the general understanding of the international accounting standards binding within the Community. To this end, the obligatory IAS/IFRS endorsement procedure was adopted, which comprises:

- 1) issuing a recommendation on accepting or rejecting a given IAS/IFRS by the EFRAG), a private organisation providing advice to the Accounting Regulatory Committee,
- 2) approving a given IAS/IFRS by the Accounting Regulatory Committee (ARC) operating within the European Commission,,
- 3) issuing an opinion by the European Parliament,
- 4) issuing a regulation by the EC comprising the content of the IAS/IFRS adopted, and publicising it in all official EU languages in the Official Journal of the European Communities.

As shown above, IAS/IFRS adoption and interpretation within the EU legislation are not automatic and require a number of facilities. This sometimes leads to a considerable time gap between the adoption of an accounting standard by the IASB and its implementation in individual Member States. For certain standards (e.g. IFRS 9 concerning financial instruments or the standard for small and medium-sized enterprises), this procedure may last a couple of years. It can be, therefore, inferred that the IFRS-based standardisation of financial accounting does not mean achieving automatic compliance and comparability in various regions or countries in legal terms. In general terms, considering the specificity of countries/regions, resulting from cultural, mental, social, historical and other differences, achieving full comparability within a foreseeable period is hardly possible.

The reference Regulation imposed the obligation to draft consolidated IFRS-based financial statements, effective from the balance years beginning with 1 January 2005, on those companies whose securities were marketed in any of the Member States as at the balance-sheet date (The Regulation of 2002, Article 4). The decision on extending the catalogue of obligatory or voluntary IFRS-based reporting options to other companies was left to the Member States' discretion. Therefore, the European Commission allowed for the IFRS application by virtually all entities, whether they draft consolidated or unit-based financial

statements, and whether or not their securities are marketed publically (Regulation of 2002, Article 5).

Further to the adoption of Regulation No. 1606, the Polish Accounting Act had to be amended, as Polish companies were previously obliged to draft their financial statements by making the only and exclusive use of the principles of assets and liabilities valuation and determination of the financial result, as defined in the reference Act. Although in 2001 the Securities and Exchange Commission imposed an obligation on the companies listed on the stock exchange to disclose the differences between Polish regulations and the IFRS, this was only in qualitative, not quantitative, terms. The appropriate regulations were introduced by amending the Accounting Act of August 2004 (Journal of Laws No. 214, Item 2153), under which the Polish legislator extended to the banks the obligation to draft consolidated IFRS-based financial statements (Accounting Act of 2004, Article 55, Paragraph 5). The legislator further provided the possibility to draft IFRS-based reports, on a voluntary basis (at the verifying body's discretion), to the following entities (Accounting Act of 2004, Art. 54):

- issuers of *admitted* securities, i.e. issuers willing to apply for the admission to marketing on one of the regulated markets within the European Economic Area (both unit-based and consolidated),
- units forming part of an equity group, in which the dominating entity drafts consolidated financial statements according to the IFRS,
- branch offices of foreign entrepreneurs, provided that they draft financial statements according to the IFRS.

Therefore, the Polish legislator did not decide on the full adoption of the IFRS. There are still domestic entities which, despite their willingness to satisfy the stringent IFRS requirements, cannot do so. The Ministry of Finance, which regulated all accounting issues in Poland, adopted an evolutionary variant of changes to balance-sheet law, arising from adjustments to the requirements of the globalising world and progressing European integration.

This gives rise to the question of the role of the Accounting Act in the entities bound (whether obligatorily or voluntarily) by the IFRS. In fact, in accordance with Article 2, Paragraph 3, they apply the provisions of the reference Act, and the executive provisions issued on its basis, in the scope not regulated by the IASB. This means that wherever there are no specific IAS/IFRS regulations, they will first refer to the Accounting Act, and then possibly to domestic accounting standards. The provisions of the Accounting Act applied by the IFRS-bound entities, because of the absence of specific IAS/IFRS regulations, concern stock-taking, book-keeping, the principles of documenting economic events, the obligation to draft reports on current activity⁴, the audit, approval and announcement of financial statements, data protection, and criminal liability.

The uniform text of the Accounting Act was published again this year (Journal of Laws of 2013, Item 330). This time, most changes which have occurred since the last but one publication of the uniform text in 2009 (Journal of Laws of 2009, No. 152, Item 1223)

⁴ The obligation to draft reports on current activity may soon be included in international standards (as the work on further changes to IFRS 1 – Presentation of financial statements is now in progress), following which this regulatory area will no longer concern the IFRS-bound units.

resulted from other factors than the standardisation processes of corporate financial reporting.⁵

An assessment of the reaction of accounting entities and users to the changes to balance-sheet law

The reaction of accounting entities and users to the changes to balance-sheet law has been tracked using the example of changes to the Polish balance-sheet law which have occurred over more than ten years, and especially those caused by the adjustments to the requirements of EU regulations and IFRS.⁶

It should be noted that IFRS implementation is not an easy task. This is confirmed by an analysis of financial statements for the periods of transition to the IFRS and the subsequent periods of companies listed on the stock exchange in Warsaw conducted by the author for the purposes of this study. There are noticeable differences in the application of accounting principles between the first report prepared in compliance with IFRS and the next (and sometimes a few subsequent) reports. Usually they result from further adjustments of the reporting to international standards. This regards both the manner of presenting information in the report and the principles of valuation and formulation of particular items in the report. Also, accounting policies have evolved significantly. This study allows the conclusion that IFRS implementation is not a single action, or an easy and short-term one, but it requires excellent preparation, training and even – in a sense – a new understanding of the company, as reporting in compliance with IFRS requires more precise disclosures, viewing the company from a long-term perspective and heavy use of management accounting tools.

Accounting users notice that changing balance-sheet law towards their compliance with international standards bring about the harmonisation of internal reporting and better comparativeness between home and foreign companies, and in the case of entities active in many countries and continents, also harmonisation of internal reporting. This has been confirmed by the results of research conducted by PricewaterhouseCoopers (2006). The comparativeness of information is a very important feature of financial statements, regardless of the necessity to make analyses, establish changes and trends in the company's activities, and make proper investment decisions. That is why, to make it easier for recipients to compare the financial results obtained by companies conducting business in various countries, and to watch the character and dynamics of the changes occurring in companies, reports from various companies worldwide should be based on the same standards. At the same time a properly-prepared and useful financial statement should contain information comprehensible to the user (who has sufficient knowledge of the company's business activities and economics, and the functioning of the markets), thus the need for permanent training.

It should be noticed that in the first half of the 1990s in Poland, training sessions, courses and other forms of education were conducted at the universities and by the Association of Accountants in Poland (Jaruga *et al.*, 2007), covering international standards. These

⁵ This is the outcome of reporting regulations through codified laws, which force continual amendments, while certain lack of flexibility results in the failure to adjust the amendment pace to the rapidly-changing economic environment.

⁶ As regards the impact of the International Financial Reporting Standards implementation on a financial report, more than ten studies have been devoted to this issue, including: Jaruga *et al.*, 2007; Krzywda and Schroeder, 2007; Walińska, 2007.

initiatives have largely facilitated the practical implementation of international regulations. Nonetheless, professional courses, both for managers and for accountants, are still needed. This results both from the difficulty level of the IFRS as such, and their constant evolution, and from the expected increase in the number of companies reporting in accordance with the IFRS.

The noticed difficulties with IFRS implementation were most probably partially due to the lack of easy access to the contents of the international standards: the first official translation of the IFRS appeared as late as in the year 2004. This obstacle has already been overcome – the EU regulations make the publication of the IFRS obligatory (in the version accepted by the EU) in the official language of each Member State. Additionally, in Poland, with the participation of the Association of Accountants in Poland, every few years the standards are published in the version adopted by the IASB [International Accounting Standards Board] in the Polish translation in book form.

Some authors have pointed out that although reporting in compliance with the IFRS admittedly highlights the usefulness of financial information, but this is being done at the cost of comparativeness: *“in the case of the IFRS it is not possible to talk about reliability or comparativeness if there are several various answers in response to the question how to post or present a certain transaction in a financial statement”* (Kamela-Sowińska, 2006). Then, paradoxically, the implementation of identical reporting standards deprives the reports of the ability to make comparisons between various entities conducting business in the same country. This had been confirmed by research conducted, among others, by Ernst&Young in September 2006 (Observation, 2006).

The difficulties encountered by Polish business in the implementation process of international standards resulted from the typical continental model of domestic accounting, based on legal principles, with the superiority of the prudence principle, the weak position of the principle of business continuity, and the prevalence of content over form and the reluctance to extensively disclose financial data. The research conducted by Cebrowska, (Cebrowska, 1998) proved that Polish accountants prefer normative regulations and do not see a need to allow alternative solutions. Other research (Vellam, 2004) indicates that in Poland the main purpose of creating financial statements is not to satisfy the needs of a wide circle of users (including investors), but primarily to meet the requirements of the law, especially accounting law. Also, an analysis of court decisions proves that accounting law is the basis for judgments, which may result from insufficient knowledge on the part of the judges regarding the purposes and role of the accounting-information system. Apart from that, doubts occur as to the proper application of professional judgment, widely required by the IFRS, needed for the proper posting and valuation of many report items. Concerns exist over the possibility of abusing the estimating process based on the [professional] judgment to manipulate financial data. Similar doubts have been expressed by Romanian researchers (Ovidiu, 2011).

Probably, if relevant research was conducted in 2013, it would turn out that the pressure for a legalistic approach to accounting is weaker, especially in public entities because basing accounting on principles (not on rules) allows entities to “tailor their accounting policy to their needs”, and because of that the image of the enterprise emerging from the statement might better reflect the economic realities of the enterprise. What’s more, the increase of authority is very much appraised by investors, especially minority stakeholders, who, as such,

do not have access to internal statements. The IFRS disclosures policy is designed in such a way that a financial statement may primarily aid rational decision-making, so consequently it has to include an abundance of management information, while the disclosures complying with the requirements of accounting law primarily serve the implementation of the attesting and controlling functions of accounting.

Along with the noted advantages of the harmonisation and standardisation of accounting there are emerging doubts related to this. More and more tangible is the complexity of financial statements preparation processes, so that even accounting specialists have difficulties with interpretation and comprehension of the economic logic of accounting law regulations. Apart from that, it was noticed a long time ago that the more detailed amendments to the law, including accounting law, the more possibilities to evade it (Mączyńska, 2009). It should be the purpose of the regulators to design such laws which, not leaving doubts as to their interpretation, would at the same time allow sufficient flexibility, and thus, not bring about the necessity for further amendments.

CONCLUSIONS

The directions of changes occurring in accounting worldwide are being charted by International Financial Accounting Standards and their continuation in the form of International Financial Reporting Standards. In Poland, the practical appliance of accounting principles is “double-tracked”: out of all the accounting entities, the majority is formed by the entities which practise accounting in compliance with the Accounting Act, and the other group of business entities keeping accounting books and prepare financial statements applies International Financial Reporting Standards (IFRS). According to official State statistics a little over 2% of all companies preparing financial statements reported compliance with the IFRS (1198 out of 53 148 entities)⁷. The role of the IFRS is bound to be growing. Poland is in the process of preparing further very important changes to balance-sheet regulations. The final shape of the standards is not yet known; consultations in this field are in progress. The expected changes are going to be significant enough to make an amendment insufficient and a new Act of law is going to be developed. Probably the Act is going to be divided into 3 parts:

- 1) regulations common to all entities preparing financial statements (also based on the IFRS),
- 2) regulations for small and medium-sized enterprises (with a number of simplifications provided for, decreasing the difference between balance-sheet regulations and tax law,
- 3) regulations for entities subject to the duty to have financial statements audited (stronger harmonisation of reporting with the IFRS).

The long period of preparing changes to balance-sheet regulations is – on one hand – related to the need to conduct very extensive consultations with a number of stakeholders, and, on the other hand – it is justified by the wait for the decisions of the European Committee and the Council with regard to reporting by small and medium-sized companies (it seems the IASB standard regarding these entities is not going to be adopted in *acquis communautaire* and extensive work is in progress on the directive regarding accounting in the SME sector).

⁷ According to the data of the Central Statistical Office for the year 2008. The information was not gathered in the subsequent years.

Moreover, further changes to international standards, as such, are expected, due to their progressing convergence with the US GAAP (Generally-Accepted Accounting Principles) and the inevitable introduction of requirements for integrated reporting (for more on these subjects see Kobiela-Pionnier, 2012; Ignatowski, 2012), as well as with the possibilities and requirements of reporting with the use of XBRL (eXtensible Business Reporting Language). Therefore, the subject of this study is going to remain currently valid and will require further even more significant analyses, as the knowledge of the reactions of stakeholders to the changes to the balance-sheet regulations will allow the planning, and then the implementation, of subsequent amendments to the balance-sheet law.

The systematisation of data on past experiences related to the implementation of international practices and regulations in the accounting of a given State facilitates predictions as to the possible reaction and warns business practitioners and lawmakers about changes in the future. This will allow the assessment of the speed and extent of the changes, as well as the level of acceptance and perception of the reporting requirements by those preparing and those using the reports alike. This knowledge is especially important for lawmakers and regulating bodies, as it will allow them to properly plan the process of legal-changes implementation. The example of Poland may be used to predict the behaviour of the other countries with similar experiences from the past related to the transition from the centrally-steered system and international isolation, and the subjecting of balance-sheet regulations to tax law and the legalistic concept of statehood. This study may be valuable for a group of developing countries which are about to make decisions on the direction of the financial-reporting harmonisation process, such as Nigeria, Turkey, Ukraine, India, Brazil, Argentina, Vietnam, and many others (an interesting study on the expected benefits and the impact of culture on the IFRS implementation process may be found in Lasmin, 2012; Terzungwe, 2012).

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BIOGRAPHY

Malgorzata Kamieniecka, Ph.D., Vice Dean for Students of the Faculty of Economics, Maria Skłodowska-Curie University, Poland. The associate professor in Accounting Department. She runs a variety of courses in accounting and economics for 12 years. M. Kamieniecka has supervised about 30 bachelor and master's theses. She is the author of about 40 scientific publications. Her research interests focus on broadly defined financial reporting of enterprises and the impact of tax regulations on accounting information system. Kamieniecka is a board member of the Accountants Association in Poland, branch Lublin. She took part in the work of the scientific committees and organization of several international conferences in finance and accounting. She won a few rewards (Dean and Rector) for scientific and teaching-organizational work.