

CHANGES IN OBLIGATORY FINANCIAL REPORTING OF SMALL AND MICRO COMPANIES IN THE EUROPEAN UNION IN THE OPINION OF STAKEHOLDERS (ON THE EXAMPLE OF POLAND)

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Abstract:

The financial report is the tool which is used to communicate financial position and efficiency of the entity to the wide range of users who make economic decisions based on this tool. It is expected that the information contained in the report is reliable, complete, understandable and useful, while prepared while maintaining the basic principles of economic calculation, ie. the benefit of its use will surpass the cost of its preparation. Reducing the administrative burden faced by the SME sector company is today one of the most important challenges, particularly in the economies of the ownership structure as in Poland, where this group of companies has more than 99% of the operating companies (being dominated by micro-enterprises - 96% - GUS data 2012.). The aim of the paper is to: 1) identify changes occurring in the form and extent of disclosures in the financial statements required of small and medium-sized entities operating in the EU countries, with particular emphasis on Poland; 2) identification of the opinion of Polish stakeholders about the changes incorporated lately into the accounting law. Objective methods used in the paper are: 1) the review of accounting and reporting regulations in EU and in Poland, 2) the review of national and international literature on reporting of SMEs, 3) analysis of comments on the proposed changes in the Polish Accounting Act expressed by stakeholders, including by the Association of Accountants in Poland, the Financial Supervisory Commission, government bodies, the Central Statistical Office, and many others. Main conclusions will be drawn using scenario of deductive methods. Simplification in financial reporting is a way to reduce bureaucratic barriers and stimulate entrepreneurial companies, particularly micro-enterprise. However, the introduction of significant simplifications in the financial reporting raises concerns about the reliability of this primary channel of information on economic and financial situation of the economic entity which is the financial statements. The question remains as an opened about the proper scope of the disclosures required by the business. Will not limited information presented in the financial statements be too vague, for external and primarily external users? Therefore, does it not contribute to the deterioration of the position of small and micro enterprises in the case of applying for external sources of funding and, consequently, will not lead to an increase in the cost of capital for them?

Keywords: financial statements, small and medium-sized companies, the accounting law, the new EU Directive on accounting, disclosure in the financial statements, the administrative burden on companies

1. INTRODUCTION

The financial report is the tool which is used to communicate financial position and efficiency of the entity to the wide range of users who make economic decisions based on this tool. It is expected that the information contained in the report is reliable, complete, understandable and useful, while prepared while maintaining the basic principles of economic calculation, ie. the benefit of its use will surpass the cost of its preparation. Reducing the administrative burden faced by the SME sector company is today one of the most important challenges, particularly in the economies of the ownership structure as in Poland, where this group of companies has more than 99% of the operating companies (being dominated by micro-enterprises - 96% - GUS data 2012.).

The aim of the paper is to: 1) identify changes occurring in the form and extent of disclosures in the financial statements required of small and medium-sized entities operating in the EU countries, with particular emphasis on Poland; 2) identification of the opinion of Polish stakeholders about the changes incorporated lately into the accounting law.

Objective methods used in the paper are: 1) the review of accounting and reporting regulations of SMEs in EU and in Poland, 2) analysis of comments on the proposed changes in the Polish Accounting Act expressed by stakeholders, including by the Association of Accountants in Poland, the Financial Supervisory Commission, government bodies, the Central Statistical Office, and many others.

Simplification in financial reporting is a way to reduce bureaucratic barriers and stimulate entrepreneurial companies, particularly micro-enterprise. However, the introduction of significant simplifications in the financial reporting raises concerns about the reliability of this primary channel of information on economic and financial situation of the economic entity which is the financial statements.

The basis for the changes in financial reporting in respect of small and medium-sized enterprises is formed by The *"Europe 2020" for intelligent, continuous economic growth favouring the social incorporation*, a strategy adopted in March 2010. Its primary ideas include the reduction of the administrative burdens and improvement of business environment, particularly in respect of MŚP, as well as promoting the idea of making MŚP more international (Europa 2020..., Annex 1, pp. 35). Due to the reduced volume of the article, the analysis will only cover the changes in financial reporting of micro and small units (except for medium-sized enterprises).

2. CHANGES IN FINANCIAL REPORTING IN RESPECT OF MICRO ENTITIES AND THEIR EXPECTED RESULTS

The simplification of accounting of micro entities has become a fact. On 5 September 2014 the Act of 11 July 2014 on amending the accounting act (Journal of Laws of 2014, item 1100) came into force. The impulse for the said amendment was the EU Parliament and EC Directive 2012/6/UE of 14 March 2012 on amending the EC Directive 78/660/EEG on annual financial reporting of some companies with reference to micro entities. The aim of the said Directive was to enable the member states to establish the simple requirements for financial reporting to be fulfilled by micro entities. The above aim was connected with the conclusions drawn by the European Council during the session on 8-9 March 2007, according to which the reduction of administrative burden was recognized as essential for strengthening the European economy, and the accounting was recognized as one of the most important fields where such encumbrances could be reduced. It was also noticed that micro entities are often subject to the same rules for financial reporting as larger companies, in which case the encumbrance is incompatible with their size and capacity. Next, the provisions of the Directive 2012/6/UE relating to micro entities were included in the so-called new directive on accounting which superseded the fourth and the seventh directive of the UE, and which was adopted by the EP and EC in June 2013. (Directive 2013/34/UE).

Owing to diversified structures of enterprises in individual EU member states and due to the fact that the activity of micro entities does not affect either cross-border trade or the operation of the internal market, the member states were free to apply the regulations of the Directive. Pursuant to Article 1, Item 1 of Directive 2012/6/UE "The member states can foresee the exemption from certain obligations

(...) of companies that did not exceed the limits of two out of the three following criteria on a given balance day (micro entities):

- a) Balance sum: 350 000EUR;
- b) Net turnover: 700 000EUR;
- c) Average employment in trading year: 10.”

The states in which Euro has not been accepted, including Poland, the amounts stated above ought to be converted into the country currency as per the exchange rate published in the Official Journal of the European Union on the date on which the Directive came into effect (Directive 2012/6/UE, Art. 1, Item 7). As of 19 July 2013, the Euro/PLN exchange rate was 1/4.2468 (Table of 2013/C206/03 of the Official Journal of the European Union). The amounts received were rounded up by the Polish legislation to full thousand zlotys, hence the adopted limits are 1 500 000 PLN of the balance sum and 3 000 000 PLN of the net income from the sale of goods and products (without financial operations).

The above limits apply to business companies, other legal persons and branches of foreign enterprises and relate to the year in which the financial report was drawn up and the year preceding the said year.

Also, the following are considered as micro entities in Poland for the needs of the Accounting Act (Accounting Act, Art. 3, Section 1a):

- 1) Societies, trade unions, employers' organizations, economic chambers, funds, representations of foreign enterprises, within the meaning of the regulations on the freedom of economic activity, social and trade organizations of farmers, trade self-government organizations, organizations of economic self-government of crafts and the Polish Communication Insurers' Office, unless they are carrying out an economic activity,
- 2) Natural persons, civil companies of natural persons, general partnerships of natural persons, and limited liability partnerships, provided that the net income of the said units from the sale of goods, products, and financial operations were equal in the Polish currency to no less than 1.200.000 EUR and no more than 2.000.000 EUR for the previous balance year.

The simplifications provided for micro entities cannot be exercised by the following entities due to their role in the economy: public finance sector units, units acting under the following regulations: the Banking Law, the regulations on cooperative savings and credit unions, the regulations on securities activities, the regulations on investment funds, the regulations on pension funds, the regulations on insurance and reinsurance activity.

Micro entities were allowed to exercise some simplifications in the application of the accounting in relation to the requirements imposed on other entities that provide bookkeeping services. The simplifications can be divided into two groups 1) reporting simplifications and 2) property valuation simplifications.

The first group shall include:

- a) Permission to prepare the simplified financial report consisting of introduction to the financial report¹, simplified balance and simplified profit and loss account the scope of which is specified in the new annex to the Accounting Act (Annex 4); the specimens of the above elements of the financial report are shown in tables 1 and 2;
- b) Relief from the obligation to draw up the activity report,
- c) Relief of the units obliged to examine the financial report on account of the need to prepare cash flow report and the list of changes in own resources,
- d) Relief from the obligation to draw up additional information provided that the supplementary notes to the balance will include:
 - The amount of financial obligations including the obligations on account of debt financial instruments, guarantees and warranties or conditional liabilities included in the balance,

¹ In the introduction to the financial report where entity data shall be specified (company name, registered office, address, court register or record ref. number), the duration of the entity operation, if limited, the period covered by the report, the applied rules of accounting for micro entities, indication as to whether the report was drawn up on the assumption that the economic activity will be continued, discussing the adopted rules (policy) of accounting, including methods of assets and liabilities valuation (also depreciation), measurement of the financial result and the manner in which the financial report was drawn up within the scope prescribed by the act with regard to the right of choice left for the entity. The scope of information included in the introduction to the financial report for micro entity shall generally correspond with the information required from other entities.

(nature and form of the liabilities secured in kind), with the obligation to disclose pension liabilities and towards related or associated units,

- The amount of advance payments and credits granted to members of administering, managing and supervisory bodies (interest rate, key conditions, amounts paid, written off or remitted), obligations undertaken on their behalf on account of guarantees and warranties,
- Own shares including the reason for acquiring the own shares, the quantity and the nominal value of the shares acquired and transferred in the specified balance year, the quantity and the nominal value of the shares acquired and held as well as part of basic capital represented by the said shares.

All simplifications contained in the first group are optional, that is to say the decision in this respect shall be taken by body approving the report, and such a decision shall be included in the accounting rules (policy) of the body.

Table 1: Scope of disclosures in the balance for micro entities

<i>Item</i>	<i>ASSETS</i>	<i>Item</i>	<i>LIABILITIES</i>
<i>A.</i>	<i>Fixed assets including:</i>	<i>A.</i>	<i>Own capital (fund) including:</i>
	- tangible assets		- share capital (fund)
<i>B.</i>	<i>Current assets including:</i>		- called up share capital not paid (-)
	- stock	<i>B.</i>	<i>Liabilities and provisions for liabilities including:</i>
	- short-term receivables		- provisions for liabilities
			- liabilities on account of credits and loans
	<i>Assets in total</i>		<i>Liabilities in total</i>

Source: Own report on the basis of: Accounting Act, Annex 4.

Table 2: Scope of Disclosures in the Loss and Profit Account for Micro Entities

No.	ITEM
<i>A.</i>	<i>Operating revenues and equivalents, including:</i>
	- change in stocks of products (increase +, decrease -)
<i>B.</i>	<i>Operating expenses:</i>
I.	Depreciation
II.	Materials and energy
III.	Salaries, social security and other benefits
IV.	Other expenses
<i>C.</i>	<i>Other operating income and profits, including revaluation of assets</i>
<i>D.</i>	<i>Other operating expenses and losses, including revaluation of assets</i>
<i>E.</i>	<i>Income tax</i>
<i>F.</i>	<i>Net profit /loss (A-B+C-D-E)</i> (for micro units referred to in Art. 3 Section 1a Items 1, 3 and 4 and Section 1b of the Act).
Or	
<i>G.</i>	<i>Total net financial income (A-B+C-D-E), including:</i> (for micro entities referred to in Art. 3, Section 1a Item 2 of the Act).
I.	The surplus of income over costs (positive value)
II.	The surplus of costs over income (negative value)

Source: Own study on the basis of the Accounting Act, Annex 4.

Group 2 of the simplifications shall include:

- a) The possibility to resign from complying with the prudence principle in the valuation of assets and liabilities, which entails lack of necessity to: 1) make write-downs on assets, 2) creating reserves for the obligations the due date and/or the amount of which is/are uncertain – this simplification is optional (Accounting Act, Art. 7 section 2a),
- b) The application of the historical cost principle for the purposes of the balance valuation, that is to say the application of acquisition prices or cost of manufacture, excluding the possibility to value the components of assets and liabilities in the fair value or in the corrected price of acquisition – this simplification is obligatory for the units that exercise any simplifications in the scope referred to in the first group (related to the financial reporting or the report on the company's operations) (Accounting Act, Art. 28 a).

The Polish legislation finally decided to introduce the simplification that was provided for in Directive 2012/6/UE and intended to be optionally implemented. It is related to the presentation of accruals and prepayments and deferred income. Initially, the draft of the amendments to the Act stated that Poland would not exercise the option as it was assumed that it would not contribute to reducing the administrative encumbrances in respect of micro entities, and would only leave the report users without important information (Convergence Table..., 2013, pp. 3). As stated above, the said option was finally exercised and the entities are not obliged to present any information on accruals, prepayments and deferred income in the balance sheet.

The Directive specified that the member states may relieve micro entities from the obligation to publish the reports, provided that the balance information is submitted to the National Court Register. In order to ensure minimum information scope for those who receive the report, the option was abandoned and amendments to the balance law were implemented in Poland. Therefore, micro entities submit to the register both their balance sheet and the loss and profit account.

As per the data presented by the Polish Central Statistical Office (Operation of enterprises ..., pp. 40), there were 1 719 187 micro entities operating in Poland in 2012 (as per the definition adopted by the Office, that is to say the entities with up to 9 employees), accounting for 97.78% of the entire sector of enterprises. 122 357 (7.12%) micro enterprises of the above quantity kept accounting books (the other made tax settlements using a simplified procedure, namely by keeping the revenue and expense ledger, tax on registered income without deductible costs, or fixed-amount tax). 19.3% of the entities comply with the definition of the micro entity as adopted by the Accounting Act with account being taken of the employment and income criterion, so the simplifications may be exercised by a maximum of 23 614 companies. It is not known how many entities will be interested in implementing the simplifications suggested by the legislation. The justification to the draft of amendments to the Accounting Act states that on the basis of the data acquired from the Polish Central Statistical Office (CSO), the Ministry of Labour and Social Policy and the research of market of accounting offices, the simplifications will be exercised by over 34 000 entities, which may lead to reducing the costs of drawing up financial reports in the range of 17 m. PLN (Justification..., 2013, pp. 14). It should be remembered, however, that the simplified procedures are optional; therefore it is difficult to specify how many entities will be able to exercise them. According to the author, the expected amount of savings also raises some doubts, mainly due to a lack of the calculation method and the fact that the simplifications primarily apply to reporting requirements, and the chief cost in the application of the provisions of the Accounting Act (apart from the external auditing costs) is the cost of keeping the books (the simplifications do not apply directly to this area of accounting).

In the legislation process implementing the said simplifications the Ministry of Finance used public consultations. A number of letters with comments came in including letters from the Ministry Supervision Authority, the Financial Supervision Authority, the National Chamber of Statutory Auditors, the Polish Institute of Chartered Accountants, ministries, and employers' unions. Some of the comments were considered by the legislation in the further legislative procedure. Due to a limited volume of the article, they cannot be discussed in detail, and if you are interested to find out more, please visit the Government Legislation Centre website where all notices and replies thereto are included in the pdf format: <http://legislacja.rcl.gov.pl/projekt/171214/katalog/171222#171222>.

3. DRAFT CHANGES IN REPORTING IN RESPECT OF SMALL ENTITIES TAKING ACCOUNT OF THE STAKEHOLDERS' OPINIONS AND RESULTS OF THE CHANGES

The implementation of Directive 2013/34/UE will have the greatest influence on amendments to the accounting law in respect of small entities. The Polish Balance Law that is currently in force provides for separate reporting requirements for two groups of entities:

- 1) entities whose financial reports are subject to obligatory examination,
- 2) entities that are not obliged to examine the financial report.

The entities that fall into group 2 may exercise certain simplifications related to the valuation of some assets (e.g. financial instruments), the inclusion of transactions in books (e.g. possibility to include a leasing transaction in the manner prescribed by the Tax Law, or the exemption from the obligation to establish assets and reserves for the deferred income tax) as well as the presentation of financial

reports (exemption from the obligation to prepare the cash flow statement and the statement of changes in equity).

The new accounting directive, however, introduces the division of entities into: micro entities, small entities, medium-sized entities and large entities. The threshold criteria that determine the qualifications of an entity for the small entity group in the new accounting directive, in the Polish Accounting Act and the draft amendments, are shown in Table 3.

It is worth mentioning that the maximum thresholds allowed by the Directive are going to be exercised by Great Britain and Germany, whereas Austria is going to exercise the partially increased thresholds. The minimum thresholds are going to be adopted by Poland, Romania, the Czech Republic, Lithuania, Malta and Estonia (OSR, pp.5).

Table 3: Scope of disclosures in the balance sheet for micro entities

<i>Item</i>	<i>Criterion</i>	<i>Threshold for small entities as per Directive 2013/34/UE</i>	<i>Thresholds to be examined under the applicable Accounting Act</i>	<i>Thresholds for small entities as per the Accounting Act draft amendments</i>
1.	Balance sum	4 000 000* EURO	2 500 000 EURO	17 000 000 PLN
2.	Net income from sales	8 000 000* EURO	5 000 000 EURO	34 000 000 PLN
3.	Average annual employment	50 people	50 people	50 people

* The Member States may determine higher thresholds, but not higher than 6 million and 12 million EURO respectively.

Source: Own study on the basis of: Accounting Act, Draft amendments to the Accounting Act of 08.12.2014, Directive 2013/34/UE (Art. 3 Item 2).

In order to enable the application of simplifications in accounting by a wider group of entities that that defined in the new accounting directive, the amended accounting act proposes to broaden the catalogue of small entities by natural persons, civil law companies, general partnerships of natural persons, limited liability partnerships that did not exceed two of the values mentioned in column 4 of the above table in the balance year in respect of which the financial report is drawn up and in the year that precedes the said year.²

In relation to small entities, the so-called maximum harmonization rule was adopted in the directive whereby small entities cannot be required anything more than is prescribed or allowed in the directive. Pursuant to Art. 4 of Directive 2013/34/UE, the small entity financial report shall include the balance sheet, loss and profit account, and additional information, and for this group of entities the reporting requirements cannot be broadened (both in respect of individual components of the report and the items presented in the said components). It is only in deviation from the standards that the member states may request the drawing up, disclosure and proclamation by small entities of the information included in the financial reports which goes beyond the directive requirements, provided that the information is collected within the framework of one integrated reporting system, and the requirement relating to disclosing the information is contained in the domestic tax regulations exclusively for the purposes of collecting taxes (Directive 2013/34/UE, Art. 4 Section 6).³ Proposals / specimens of the balance sheet (horizontal and vertical variants) and the loss and profit account (calculation and comparative approach) were presented as appendices to the Directive. The proposals of the extent of information shown in the financial report for small entities that exercise the simplifications were suggested in Annex 5 to the Accounting Act.

The regulations currently in force in Poland provide for the possibility to draw up a simplified financial report consisting of only those items which are identified with Roman numbers in the Annex 1 to the Accounting Act. Such simplified financial report also involves preparing the additional information. The

² The entities that operate under the provisions of the following legal acts were excluded from the catalogue of small entities: Banking Law, Act on Cooperative Savings and Credit Unions, Law on Public Trading in Securities, the Investment Funds Act, the Pension Funds Act, Act on Insurance and Reinsurance Activity, the issuers of securities released for circulation or applying for release for free circulation on the regulated market or alternative market, domestic payment institutions and the e-money institution. The above is in accordance with Art. 40 of Directive 2013/34/UE, - the member states shall exclude the public interest bodies from the extent of simplifications and reliefs and such bodies shall be considered as large entities.

³ This option was not used by the Polish legislations there is no integrated system for financial and tax reporting in Poland (Correspondence Table..., 09.01.2015., pp. 17-18).

above possibility applies to the companies that did not, in the current balance year and the previous balance year, reach two out of three values (Accounting Act, Art. 50, Section 2):

- 1) the average annual employment expressed as full-time jobs was not more than 50 employees,
- 2) the total amount of the balance sheet assets did not exceed 2.000.000EUR,
- 3) the net income from sale of products and goods and financial operations did not go beyond the equivalent of 4.000.000EUR.

The scope of information required in the balance sheet after the act is amended is shown in Table 4. The comparison of the balance in its new form with the specimen applicable thus far (simplified version) allows a conclusion to be drawn that the new version of the simplified balance sheet is more complex. This may come under fire from economic practitioners.⁴

The following countries are going to exercise the option to implement the simplified balance sheet for small entities as prescribed by the Directive: Great Britain, Germany, Italy, Austria, Romania, the Czech Republic, Lithuania, Malta, and Estonia (OSR, pp. 5).

Table 4: Proposed scope of disclosures in balance sheet for small entities

<i>Item</i>	<i>ASSETS</i>	<i>Item</i>	<i>LIABILITIES</i>
A.	<i>Fixed assets</i>	A.	<i>Shared capital</i>
I.	Intangible and legal assets	I.	Shared capital
II.	Tangible assets, including:	II.	Supplementary capital, including:
	- fixed assets		- agio
	- fixed assets under construction	III.	Revaluation capital, including:
III.	Long-term receivables		- on account of fair value revaluation
IV.	Long-term investments	IV.	Other reserve capitals
	- Long-term investments	V.	Profit (loss) from previous years
	- long-term financial assets	VI.	Net profit (loss)
V.	Long-term prepayments and accruals	VII.	Net profit write-offs in the balance year (-)
B.	<i>Turnover assets</i>	B.	<i>Liabilities and provisions for liabilities</i>
I.	Stock	I.	Provisions for liabilities, including:
II.	Short-term receivables, including:		- Pension and related benefits provision
	a) On account of deliveries and services, including:	II.	Long-term liabilities, including:
	- up to 12 months		- on account of credits and loans
	- over 12 months	III.	Short-term liabilities, including:
III.	Short-term investments, including:		a) on account of credits and loans
	a) Short-term financial assets, including:		b) on account of deliveries and services, including:
	- cash in hand and at bank		- up to 12 months
IV.	Short-term prepayments and accruals		- over 12 months
C.	<i>Called up share capital not paid</i>		c) Special funds
D.	<i>Own shares</i>	IV.	Prepayments and accruals
<i>Assets in total</i>		<i>Liabilities in total</i>	

Source: Own study on the basis of: Draft Amendment to the Accounting Act..., Annex 2.

A lot of emotions among referees were aroused by the change of presentation of own shares included thus far in equity (minus) in the balance sheet liabilities (Discrepancy Report..., 24.11.2014, pp. 46-50). According to the new reporting specimen, the item is included in assets (similar to the called up capital not paid). The said change is imposed by transposition of the provisions of the Directive where the Polish side called on the European Commission to adopt a more flexible approach, but since the date on which the article was published, no reply has been received. Social consultants draw our attention to the fact that such presentation will deform financial indicators counted on the basis of the balance sheet, that is to say it will improve the debt ratio (the amount of shared capitals will be higher) and the fluidity ratio. The future work on the amendment should involve a consideration of whether

⁴ Compare: Comment submitted by Z. Fedak (Discrepancy Report..., 24.11.2014, pp. 48).

dividends should be transferred to prepayment assets (as shown in liabilities in item "Net profit write-offs in balance year"). However, if the draft balance sheet specimen were maintained, it would involve the necessity to amend the applicable provisions of the Business Code (Art. 200 § 3, Art. 363 § 6 and Art. 362 § 2 Item 3) (Correspondence Table..., 09.01.2015, pp. 46).

Table 5 shows the scope of disclosures that will be required from small entities after the act is amended in the loss and profit account (the entities were left with the possibility to choose to prepare the element of report either in calculation or comparative approach. It should also be noticed that small entities in Poland make their loss and profit account more frequently).

The implementation of the new directive provisions entails a change that will apply not only to small entities but also medium-sized and large entities. The entities that are not banks or insurance institutions will not show any items in the loss and profit account that will refer to extraordinary profits or losses (the items were removed from the loss and profit account specimens). Pursuant to Art. 16, Section 1 Item f of the Directive, the "amount and nature of individual income items or any unusual costs or extraordinary nature" shall only be shown in the additional information. This means that the said events will fall, on the basis of their description, into the appropriate category of income or costs (the basic operational activity, other operational or financial activities).

Table 5: Proposed scope of disclosures in the loss and profit account for small entities

<i>Item</i>	<i>By function</i>	<i>By type</i>	<i>Item</i>
A.	Net income from sale of products, goods and materials	Net income from sale and revenue being equal to	A.
B.	Cost of sold products, goods and materials	Income from sale	I.
C.	Cost of sale	Change in product condition (increase +, decrease -)	II.
D.	General management costs	Costs of manufactured products for own needs	III.
E.	Profit (loss) from sales (A-B-C-D)	Operational activity costs	B.
		Depreciation	I.
		Consumption of materials and energy	II.
		External services	III.
		Remuneration	IV.
		Social insurance and other benefits including - pension benefits	V.
		Other costs including: - value of sold goods and materials	VI.
	Profit (loss) from sales (A-B)	C.	
F.	Other operational income, including: - revaluation of non-financial assets		D.
G.	Other operational costs, including: - revaluation of non-financial assets		E.
H.	Financial income, including:		F.
I.	Dividends share in profit of entities with equity participation, including: - from related entities		I.
II.	Interest, including: - from related entities		II.
III.	Profit from expenditure of financial assets, including: - in related entities		III.
IV.	Revaluation of financial assets		IV.
I.	Financial costs, including:		G.
I.	Interest, including: - from related entities		I.
II.	Loss on account of expenditure of financial assets, including: - in related entities		II.
III.	Revaluation of financial assets		III.
J.	Gross profit (loss)		H.
K.	Income tax		I.
L.	Net profit (loss)		J.

Source: Own study on the basis of: Draft amendment to the Accounting Act..., Annex 2.

As regards the scope of disclosures in the additional information, it was enumerated in Art. 16 of the Directive and the member states cannot require small entities to provide more details than is required or allowed in the Article. The Polish legislation proposed a specimen of disclosures in respect of the

element of report in Annex 5 to the Accounting Act, and the disclosures do not go beyond the scope referred to in the Directive.

Entities classified as small will be entitled to choose the relief from the obligation to draw up the report on operations (result of putting Art. 19, Section 3 of the Directive into practice). Then, however, they shall be obliged to show the information on their own shares as part of the additional information.

Small entities will not have to present non-financial information – such reliefs are contained in Directive 2014/95/UE amending Directive 2013/34/UE that was published in the EU Official Journal on 15 November 2014 and came into effect at the beginning of December 2014).

Art 50 Section 1 remains unamended and states that the information included in financial report may be shown in a greater detail than is prescribed in annexes to the Act, provided that it is determined by the needs or nature of the entity. The future will tell in what scope the economic entities are willing to exercise the proposed solutions (will they be more willing to exercise the simplifications or leave the scope of information contained in reports unchanged).

Since the criteria that are applicable in Poland in respect of the qualification of entities to the group subject to mandatory examination are lower than the thresholds determining small entities in the directive, the Polish legislation needs to decide on the mandatory examination of financial reports of small entities. The draft does not provide for any changes in this regard by reason of safety of economic turnover, protection of the interests of stakeholders and shareholders, contracting parties, lenders, and other users of the report (OSR, pp. 7). Therefore, the entities subject to the mandatory examination include those that draw up five-component reports, as well as those the report of which shall consist of three obligatory components (without cash flow account and statement of changes in shared capital).

With respect to announcing financial reports, the directive provides for the possibility to relieve small entities from the obligation to announce the loss and profit account and the report on operations (Directive 2013/34/UE, Art. 31, Section 1). The Polish legislation did not use the said possibility as it was decided that due to the fact that small entities are obliged to draw up the loss and profit account anyway, so the necessity to report this element of the report to the appropriate court register (which is equivalent to publishing) shall not constitute an additional burden for the entities, and in addition to that, failure to report would impede the access to the information for the parties concerned.

The Directive clearly indicates the valuation of balance sheet items in sale prices or manufacturing costs (Directive 2013/34/UE, Art. 6 Section 1, Item i). It allows the valuation of fixed assets in the present value only by way of deviation (Directive 2013/34/UE, Art. 7, Section 1). The same applies to specified items of assets, including the financial instruments in the fair value (Directive 2013/34/UE, Art. 8). The above deviations may be exercised by the member states with reference to any group of entities. The options were not exercised when the Accounting Act was amended. For fixed assets and non-tangible and legal assets, they are subject to revaluation only under separate regulations⁵, and small entities may resign from the revaluation of the financial instruments in fair value provided that they choose the simplified variant for drawing up the reports⁶.

In respect of small entities, the proposed amendment to the Accounting Act provides for additional simplifications that are not related to the Directive requirements. The said simplifications include:

- 1) The possibility to exercise the simplified classification of leasing contracts as per the rules referred to in tax provisions (this facility may also be exercised by territorial self-government bodies),
- 2) The possibility to waive the inclusion of assets and reserves for deferred tax,
- 3) The possibility to resign from the application of the provisions of the Decree on financial instruments (The Decree of the Minister of Finance of 12.12.2001).

The above changes will allow the simplifications to be exercised by a greater number of entities than before, reducing the encumbrances related to keeping the books (Justification of 08.12.2014 pp. 6).

⁵ The most recent revaluation that the entities could make was under the Decree of the Minister of Finance of 20 January 1995 (Journal of Laws No. 7, Item 34 as amended).

⁶ They shall not apply the provisions of the Decree on financial instruments as referred to in the following paragraph.

According to the calculations made by the Ministry of Finance (based on the data provided by the Central Statistical Office) that governs the issues related to the balance law, the draft changes in the accounting regulations in respect of small entities will affect about 41 000 entities, including more than 24 000 joint-stock companies, limited liability companies and limited joint-stock partnerships (other 16 000 entities shall be those that additionally included in the draft amendments to legal acts as small entities – this mainly refers to natural persons and their companies) (OSR, pp. 5 - 6).

With regard to financial benefits from the proposed amendments for small entities, the Ministry of Finance announced that they would amount to 61 195 500 PLN (assuming that the costs of simplified drawing up of the report will fall by 50%, that is to say from 1 500 PLN, because the time necessary for the drawing up of such report will be 50% shorter; in this way, for small entities covered by the directive, the benefits will amount to over 36 million PLN, and when the catalogue of small entities is extended, they will rise to more than 61 million PLN) (OSR, pp. 8). According to the author, the calculations are too optimistic, as in the times when the process of drawing up financial reports is supported by IT systems, the labour related to the accounting tasks is chiefly determined by obligations relating to the documentation and the recording of economic events, with the drawing up of the report being highly automated. Furthermore, the calculations of the Ministry of Finance take account of the assumption that all entities that meet the adopted criteria for small entities may exercise the simplifications. The above fact is not obvious enough, the more so because, as indicated by certain comments brought in (incl. by the Central Statistical office, or SKwP⁷), the reporting obligations resulting from provisions other than the balance law (national statistics, tax law) force entities to provide additional information reviews. There are also misgivings about the credibility of national accounts – simplified reporting may cover a substantial number of entities, necessitating the valuation of missing variables thus reducing the quality of reports that account for about 10% GDP. According to the Central Statistical Office, there is a real threat of losing the continuity and the comparative character of statistical data. Besides, CSO has some problems with meeting the reporting responsibilities arising from the EU law (Discrepancy Report A..., 24.11. 2014, pp. 15-18; 48-49).

On 15 February 2015, the legislative process of amending the Accounting Act is ongoing. The process is based on an assumption to carry out extensive social consultations with partners representing expert auditors and accountants, organizations of employers and trade unions, organizations representing business environment, and representatives of small non-governmental organizations. Interministerial agreements were also made and submitted to be reviewed by the Joint Commission of Government and Territorial Self-government. Also, on 3 December 2014, the Ministry of Finance organized the agreement conference where the proposal of the regulations was discussed. The draft changes met with a wide interest of the stakeholders: by the end of November 2014, 21 letters with comments were posted, and following the conference, 18 letters came in containing more comments and suggestions. More versions of the draft amendment to the Accounting Act taking account of next stages of social consultations were presented in September and December 2014 and in January 2015. Some of the comments reported by the stakeholders were not considered in the following draft amendments as they went beyond the scope of amendment required by the Directive. These included the proposals aiming at standardizing the tax and balance regulations. Some of the differences in the regulations are groundless, and the dual nature necessitates additional expenses related to adapting the IT systems. It was also noticed that the accounting simplifications should rather involve facilitating the qualification, inclusion and valuation of the balance components and result categories, without reducing the information value of the reports (Discrepancy Report of... 24.11.2014). We should hope that the Polish legislation will soon be willing to give more attention to the problems.

4. CONCLUSIONS

The extension by the legislation of the simplifications to a greater number of entities, including the entities not covered by the Directive, should be regarded as a positive solution. There is no doubt that the introduction of simplifications related to financial report information scope will result in reducing the number of procedures for drawing up the financial documents by the finance and accounting services. It will also contribute to shortening the time needed to draw up the report. It seems, though, that an essential reduction of administration encumbrances, so much expected by all market participants, enabling the improvement of competitiveness of economy and the appearance of new enterprises and jobs, should be sought in the procedures relating to tax regulations, employment and other (more on

⁷ The contents of the comments are available at <http://legislacja.rcl.gov.pl/lista/2/projekt/246200>.

the subject of administrative encumbrances, see: report drawn up by the Ministry of Economy: status of responsibilities, Annex 2).

Too far reaching financial reporting simplifications may have a negative effect on the economy. They arouse some fears about the completeness and reliability of the basic channel of information on the property and financial status of an economic entity on the basis of which crucial business decisions are made.

The revolution in financial reporting is not the best solution as regards the issues connected with harmonization or challenging the era of economy based on knowledge. Nevertheless, evolution changes are necessary and expected. Such way, according to the author, has been chosen by the Polish Ministry of Finance in the process of implementing the new accounting directive.

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