

THE ACCOUNTING SYSTEM IN POLAND – POLSKI SYSTEM RACHUNKOWOŚCI

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Abstract

Studying Poland's economic situation is a challenge for specialists, since it is the country with the best performance among the former communist countries of Eastern Europe. The aim of this article is to examine the variables that have a key role in defining the Polish accounting model in order to better understand its evolution. Firstly, will be shown a chronological summary of the events that formed the accounting in Poland. Then will be exposed the socio-economic cultural, legal and institutional context of national accounting system, its structure being described by emphasizing the internationalization. Finally, will be set up a correspondence between Polish norms and international standards, in order to highlight the characteristics of Polish accounting system that led it to preserve its features even in the internationalization and standardization context.

Key words: Poland, accounting system, auditing, IFRS

JEL Classification: F23, M41, N85

INTRODUCTION

Before 1930 there was no national chart of accounts for Poland, while in 1907 it was founded the Association of accountants. Period up to the Second World War was strongly influenced by the German system, at that moment being in force the German general plan of accounts. In Germany, the accounting plan of the Reich (*Reichskontenrahmen*) published in 1937 and obligatory for all companies in France, was introduced in Poland in 1942, in Hungary (1943), in Czechoslovakia (1944), and so on, in different variants depending on the country-specific. This system was changed after the Russian occupation and the introduction of a centrally planned economy.

Accounting system in former communist countries was designed, regulated and controlled by the central authorities. Data processing was standardized with national accounts plans customized for major sectors of the economy (chart of accounts for industry, agriculture, construction and so on). One of the important functions performed by primary accounting and financial reporting was that of prove in court. Accounting system was generally organized into a single circuit, financial accounting and management accounting being integrated.

The objective of accounting was initially defined as “full supervision and control of the fulfillment of plans in enterprises, organizations and institutions socialist, and hence the entire national economy”. The financial statements were intended to the administrative structures and authoritarian power – Ministry of Finance, National Bank – recognized as users of accounting information. Soviet type accounting system demonstrated an action limitation of the accounting principles and conventions characteristic for financial reporting in a market economy. The principle of entity was not respected because losses were financed from the state budget and the profit was transferred to the same budget. Accrual accounting was practiced in a greater or less measure. Enterprises in the USSR and Poland applied a partial accrual. In Poland, the revenues were recognized in accounting while sending finished products to the

customer if the payment was made in a certain time: within 15 days or before January 25 of the following year. Nor were recognized the spending for the accounting documents that had not been issued before year end (e.g. salaries and utilities). Interest on loans was not considered an expense in the USSR, but a distribution of profits. The scope of the precautionary principle was very limited. In Poland, the principle of prudence was limited to stock assessment (usually the lower of cost and market value) and permanent methods were equivalent, by default, with uniformity.

1. FROM A PLANNED ECONOMY TO A FREE MARKET – THE EFFECTS ON POLISH ACCOUNTING SYSTEM

History of accounting in Poland is related to dramatic changes in the political, socioeconomic and cultural situation. In the transition from a planned economy to a free market one, accounting principles form an active tool to calculate economic performance as well as an international communication tool between markets, which allowed Poland to become a member of the international community, strengthening economic growth. After 1989 the Ministry of Finance (Ministerstwo Finansów) developed a regulatory framework accounting system, but the lack of professional conferred to the State a dominant position in defining the reform process of the new system. In this period, the accounting system was under a strong pressure to change according to the new political and economic reality, given foreign investment and capital inflows influence the EU system, closer cultural contacts with Western Europe and pressures of international accounting principles for investments evaluation.

Unit production has declined after 1989 and Poland was deprived of the necessary capital for modernization and restructuring firms in competitive national. Attracting foreign investors was crucial at that time. Potential investors were concerned about the accuracy and legibility of accounting reports, transparency of information on capital flows and the application of the accounting standard principles. The application of international accounting standards can be a prerequisite for foreign investments.

For accession to the EU, Poland was prepared through the development of new accounting system, one of the key instruments harmonize financial reporting system with the European Directives and IAS. Accounting legislation introduced since 2000 that has tried to comply with the Fourth Directive, thereby Polish accounting system closer to the EU. The 7th and 8th Directives have become part of the legislation. With this new framework, Poland provided a good basis for membership of the EU, which happened in 2004.

Between 2000-2006, there were 25 accountants and auditing courses. In addition, a large number of training organizations were nominated for the continuing professional development of environmentally intrprinde statutory auditors. Expectations of future trends and developments in the accounting system and structure Poland aims to establish an international system of accounting and the Ministry of Finance has established a Committee of Accounting Standards. The Committee aims to improve accounting law from 1994 to develop national accounting standards in line with international practices.

Given the complexity of accounting standards, the accounting reform can only be a gradual process, starting from general principles and then develop more detailed rules and laws. Stressing the importance of transparency, accountability and comparability national the accounting system can influence the speed of socio-political transition and economic reforms. It may also have an important impact on the process of attracting foreign investment. At present there is a tendency for a substantial number of EU companies moving to Poland, labor being cheap, political situation stable and the tax system lower.

2. SOURCES OF LAW AND STANDARD-SETTING ORGANISMS IN POLAND

In 1907 was founded the *Accountants Association in Poland* – AAP (Stowarzyszenie Księgowych w Polsce – SKwP), exerting an insignificant influence in accounting. At that time the accounting profession was weak and fragmented. Due to pressure by the tax authorities in 1930 accounting practice has seen major improvements.

During the German occupation (1939-1944) became effective the rules of the *German General Plan of Accounts*. In the next period, in which Poland was ruled by Communists, with a centrally planned economy (1944-1989), accounting declined in importance, being ruled by a set of detailed financial rules based on the Soviet accounting plan. Accounting profession was not independent and there was no interest for innovation in accounting, becoming an instrument of central economic administration and exercising it through a uniform accounting system mandatory for all businesses. Accounting was reduced to routine record-keeping of property.

Without a strong accounting profession, the transition from a planned economy to a proper accounting of market economy required accounting, paradoxically, both state action as a new commercial laws and form of new accounting regulations. Between 1989 and 1991 it was reorganized banking and insurance sector, through the privatization process and the establishment of the *Warsaw Stock Exchange* (*Giełda Papierów Wartościowych w Warszawie – GPW*).

Commercial Code of 1934 was back in force from the beginning of privatization, so that the most important form of entity of Poland became a joint stock company organized on two corporate levels:

- supervisory board elected by shareholders and with the responsibility to oversee the executive representatives;
- Board of Directors.

Privatization of these companies was made, respecting the strict criteria imposed by the *Securities Commission* (*Komisja Papierów*), established in 1991 following the model of U.S. Securities and Exchange Commission in order to regulate the stock market. This was done either by selling off them (most often under long-term lease) or partial maintenance of state property. A so-called law of “mass privatization” entered into force in 1994 and through it 500 medium companies were placed under the control of 15 *National Investments Funds* (*Fundusze inwestycyjne krajowe*). National funds were the main owners of firms. All adult citizens of Poland were put in possession of evidence of universal actions that can be exchanged into shares NIF. Although the transfer of property takes place, the public sector lagged behind privatization is relatively high.

In January 1991, the Ministry of Finance issued an Accounting Decree covering all firms except financial institutions. A draft of that Decree was published for explanations in the monthly journal of the AAP. It has been criticized both for lack of prestige that accompanied the legislation, and for the insisting on a homogenous that does not help anything.

Regulations were imposed by the Ministry of Finance, without making any attempt to ask the representative organizations of users in the field. In the normative act were provided many of the requirements of the 4th European Directive, but not all. Its interpretation is emphasized the conformity and the general trend towards the German financial reporting. The provisions of Decree disregard the 7th Directive, which was expected, since the consolidated financial statements were not previously known in the Polish accounting theory and practice.

The Council of Ministers Order issued on July 29, 1991 in accordance with *The Law of Public Exchange of Securities and Trustees' Funds (Prawo o publicznym obrocie papierami wartościowymi i funduszach)* mentioned what information must include prospectus of companies wishing to be listed on the Stock Exchange. Law, being in accordance with the 7th and 4th European Directives, demands true and fair presentation, accounting being formal leading. Fair view requires presentation of financial statements, respecting the tax and financial reporting framework.

This normative act presents incompatibility both to the Commercial Code and to the Income Tax Act of 1992. The Commercial Code required a high degree of caution in evaluating assets. The accounting provisions required all entities to have an accounting plan. As in France, the entity elected to use also a cost accounting system.

Accounting Decree was replaced in 1994 by the Accounting Law (*Ustawa o rachunkowości*), which has significantly changed in 2000, last revision been made in 2009. The law applies to all economic entities (both traders operating on their own and associations of persons and companies) and small businesses can prepare simplified financial statements. Like in the European Union, the size of the entity is determined by the number of employees, turnover and total balance sheet.

Accounting law has mainly focused on:

- accountancy;
- inventory;
- valuation of assets and liabilities;
- calculating net result;
- financial statements of entities and groups;
- auditing and publication of financial statements;
- the preservation of accounting archives;
- measures to be taken to prevent and detect fraud, etc.

The law allowed the Securities Commission to draw up rules for listed companies, observing a tendency to give more importance to the financial statements publication than to the measurement values (for example, is required the publication of interim financial statements).

In 1995, the Ministry of Finance issued a decree with regard to consolidation, which required annual financial statements for companies that meet certain criteria, subject to certain EU directives, and with some minimum requirements for maintaining accounting records. It also was provided the inclusion of positive and negative goodwill in the profit and loss account over a period not exceeding five years, the total consolidation of subsidiaries, using the same accounting method to assign and implement a course for closing the balance sheet translation of foreign subsidiaries.

In the same year the Polish Accounting Association has developed an optional model chart of accounts, since Accounting law did not impose a mandatory plan of accounts. An important innovation is the formal separation between financial and tax reporting, with concomitant introduction of the concept of tax deferred. Deferred taxation of liabilities must register necessarily increases, while deferred tax of assets can be increased.

Accounting Standards Committee (Komitet Standardów Rachunkowości) was established under the control of the Ministry of Finance and brings together representative members from academia, large companies and international audit, Securities Commission, the *National Chamber of Statutory Auditors (Krajowa Izba Biegłych Rewidentów)*, *Accountants Association in Poland (Stowarzyszenie Księgowych w Polsce)* and domestic banks. The Committee aims mainly to prepare the national accounting standards for implementation and to make revisions and amendments to the Accounting Law.

3. THE POLISH GENERAL ACCOUNTING FRAMEWORK AND FINANCIAL STATEMENT PRESENTATION RULES

Polish Accounting law ensures that key objectives:

- increase the social status of the accounting profession;
- uniform application of a set of accounting principles to all economic entities;
- creating conditions for synchronization with the tax accounting principles.

The most important accounting principles to be followed in the preparation of annual financial reports are:

1. *The materiality principle (Zasada istotności)* according to which any element that has a significant value must be disclosed separately in the financial statements. Non-material items that have the same kind or similar functions will be added, no need to disclose them separately.

2. *The going concern assumption (Założenie kontynuacji działalności)* is based on the assumption that the entity will continue in the near future, without going into bankruptcy, liquidation or significant reduction in activity.

3. *Principle of conservatism or prudence (Zasada ostrożności)* consists of a reasonable appreciation of the facts in order to avoid a risk of future uncertainties present, heritage and uncertainties that may affect the results of economic unity. According to this principle is not permissible overstatement of assets and revenues, respectively understatement of liabilities and expenses, taking into account depreciation, risks and possible losses arising from current year or previous activity.

4. *The principle of permanency of methods (Zasada ciągłości)* involves using the same rules and regulations to ensure comparability of the financial information.

5. *The principle of comparability (Zasada porównywalności)* is closely linked to the principle of consistency.

6. *The principle of substantially (Zasada trwałości wiedzy)* according to which financial reporting takes into account only information affecting significantly, evaluation and decision making. Since the period of the Second Republic, the measurement rules in Poland were influenced by details of the income tax legislation. This link has been weakened by the Accounting Law of 1994, but still important, given the lack of experience demonstrating Poland accountants regarding their financial reporting not carried out after tax rules.

Commercial Code stipulates creating legal reserve by public companies, but does not mention too many details of the publication. This gap was filled by the Accounting Law, which adopted the format of financial statements of the Fourth Directive of the European Union. The format is reproduced both in Polish and in English, being also presented a summary of regulations regarding the form and content of published financial statements, asset valuation and income measurement.

In Poland, Accounting Law requires a true and accurate presentation of the financial statements, equivalent to the requirement true and fair view on the financial position, results and profitability of an entity. Accounting regulation in Poland was in competence of Accounting Standards Committee. Audit of financial statements is mandatory for joint stock companies, banks and other financial companies and other entities depending on size criteria meet much higher. The financial statements of companies in Poland include: balance sheet, income statement, cash flow statement, statement of changes in equity and notes. Model financial statements are provided by the Ministry of Finance. However, in Poland is permitted the removal from these models if the reporting shows the financial condition and results clearly and accurately, according to legal requirements. In addition, listed companies must comply with the formats provided in the Decree of the Council of Ministers on the issue of securities. In Poland, the management assumes responsibility for preparing financial statements.

The main differences between Polish and IFRS accounting rules can be summarized as:

- lack of restatement in conditions of hyperinflation;
- less stringent criteria for recognition of intangible assets (e.g., expenses for the establishment and expansion of the company are enabled, contrary to IAS 38, lacking clear definitions to enable framing of research and development costs);
- favorable exchange differences on debts incurred to finance fixed assets can be capitalized IAS 21 limiting this option to special circumstances (inability settlement or currency hedging);
- revaluation of fixed assets is based on legal regulations and official indices and cannot be initiated by companies;
- exceptions to the consolidation of accounts: group size (if two of the following criteria are met: the average number of staff less than 250 employees, total assets of less than 7.5 million, turnover below 15 million), a subsidiary activity totally different than that of the parent company, inflated costs to consolidate foreign subsidiaries.

Finally, can be summarized the main accounting practices used in Poland, such as the methods for evaluating costs, namely FIFO – *first in - first out* (*pierwsze przyszło - pierwsze wyszło*), LIFO – *last in - first out* (*ostatnie weszło - pierwsze wyszło*), WAC – *weighted average cost* (*średni ważony koszt*). Regarding the evaluation of clients, the value reductions for uncertainty customers must be established at the end of each year, being possible the formation of a general reduction in customer portfolio. Research and development costs are recognized in profit or loss account and can be activated and harmonized over a period of 5 years. In terms of goodwill, this is recognized only in acquisition, which is amortized over a period not longer than 5 years. In exceptional and justified cases, goodwill can be amortized over a maximum period of 20 years. The concept of group is considering legal criteria to define a branch (more than 50% of the voting rights). Associates are considered part of the group (if they hold upon 20% of the voting rights) and minority interests are separately presented between equity and debt.

4. THE ACCOUNTING PROFESSION IN POLAND

In the accounting profession in Poland there are the following professional titles in accounting, audit and tax advisory:

A. In accounting – the used title is that of *accountant* (*księgowy*). This is not a regulated title, and therefore anyone with accounting knowledge can take bookkeeping in a company. Company's management is responsible for checking the competence, experience and knowledge of the accountant hired, the company threatening to hire unqualified. In practice, it is used also the name of *chief accountant* (*główny księgowy*), which indicates that a person is responsible for the entire accounting system of the society in which they work, whose task is to prepare and sign the financial statements with management. In Poland there are also *accounting technicians* (*inżynierowie księgowi*), who have lower qualifications, making technical accounting work under the supervision of chief accountant.

Only authorized accountants have the right to provide public accounting services (for third parties). They are usually independent accountants or limited liability company, required to have a special certificate issued by the Ministry of Finance. Obtaining such a certificate is subject to several requirements set out in a separate regulation for authorization to provide accounting services to third parties. Independent accountants are allowed to provide any services related to accounting and tax filing. The scope of these services depends on the needs of their clients.

B. In auditing the used title is that of *statutory auditor* (*biegły rewident*), designation governed and protected by law the unauthorized use being prohibited. For

qualification of statutory auditors is necessary to have a university degree or equivalent, to perform three years of practice, including two years under the supervision of a professional practice and promote the audit exam.

The auditor is authorized to provide the following services: statutory audit of financial statements; bookkeeping and financial accounting services; comments on the financial statements; economic and financial analyzes and opinions; tax consultancy; IT consulting for accounting systems; organization and management of liquidation and bankruptcy proceedings; publication and training activities in the accounting area.

All relevant regulations on auditors and their professional obligations are included in the Law on Self auditors and self management body of October 13, 1994.

In Poland, all auditors are required to be members of the *National Chamber of Statutory Auditors (Krajowa Izba Biegłych Rewidentów)*. The Chamber is the national governing the auditing profession. It establishes professional and ethical standards mandatory for all auditors and dealing with supervision of auditors.

Statutory audit is performed on the basis of the following acts:

- a) Accounting Law;
- b) The law of auditors and self management body;
- c) National professional standards that are set by the National Chamber of Statutory Auditors, in collaboration with the Ministry of Finance, the Stock Exchange, and the auditing of banks, in collaboration with the banking Supervision.

C. In tax advisory the used title is that of *tax advisor (doradca podatkowy)* which it is also protected by law. Rules on tax adviser qualifications and the right to practice tax advisory services are specified in the Law on tax advice of July 5, 1996. Tax advisers are required to be members of the *Chamber of Tax Consultants (Izba Doradców Podatkowych)*.

Are authorized to perform tax advice:

- natural persons entered in the Register of tax advisors;
- lawyers and legal advisers;
- auditors.

D. In assessing is used the title of *evaluator (rzeczoznawca majątkowy)* which is governed and protected by the Law of 21 august 1997 about Property Management. Evaluators must obey the law mentioned above and professional standards in the field.

Accountants Association in Poland is the oldest and largest Polish organization made up of professionals from the fields of accounting and finance. Since 1989 AAP becomes an ordinary member of IFAC. It does not issue professional certificates authorizing individuals to perform accounting services, but the issue diplomas that plays a key role in training people who want to work in accounting or improve professional skills. AAP makes continuous efforts to ensure that its members reach the highest level of professional skills and follow the ethical standards.

There are two main degree offered by AAP:

- for accounting technicians;
- for chief accountants.

Since 1957, AAP has among its members also *chartered accountants (biegły księgowy)*. Most chartered accountants were recognized as auditors.

The Association has the following objectives:

- defend the rights, dignity and interests of its members;
- initiating and carrying out activities aimed at improving knowledge and skills of its members;
- ensure professional and ethical standards for its members and the creation of appropriate conditions for bringing these standards;

- cooperation with state authorities, local government bodies and trade and social organizations to improve the following areas: accounting, finance, tax, audit of financial statements and internal audit;

- cooperation with international organizations and institutions to formulate, organize and execute the profession according to European and international standards and solutions.

Based on international experience over many years and developed its position in Poland, AAP aims to disseminate professional knowledge and assistance to improve the professional qualifications of its members and ensure that AAP members and others working in the accounting area and related professions are able to keep up with new international requirements.

National Board of Audit Companies (Krajowa Rada Firm Audytorskich – SKwP) was established in 2000 and has several hundred of audit firms. The main objective of the Board is disseminating among audit firms of international and European achievements of the field of accounting and auditing. This is achieved mainly by:

- organization of conferences;
- National Council Bulletin issued by audit firms which includes, among other things, translations of important documents issued by European and international organizations and regulators;
- exchanges and providing support for audit firms, especially in interpreting laws required.

National Board of Accountants (Krajowa Rada Księgowych) was established in 1989 and aims core:

- ensuring a high level of professional knowledge and skills for accountants;
- disseminate the highest standards of professional ethics;
- representing and protecting the interests of professional accountants;
- cooperation in the development and updating of educational programs in accounting area;
- participation in works about the methodology and development of accounting in Poland;
- participation in the consultations on the application of IFRS/IAS and ISA;
- dissemination of international standards and guidance in accounting and auditing;
- representation of Polish accountants at international level.

In 2004, the Association of Accountants in Poland and the Association of Chartered Certified Accountants (ACCA) signs partnership agreement, whereby the parties agreed that AAP to prepare Polish version of IFRS training course called *Polish Language Diploma in International Financial Reporting (Polskiej Dyplom Język Międzynarodowej Sprawozdawczości Finansowej)*. To qualify, a candidate must be professional accountant or auditor or have appropriate academic and practical studies in accounting or hold the position of CEO. After the internship, participants can sit for an exam and get certified. Training and assessment are organized by AAP.

(INSTEAD OF) CONCLUSIONS

In 1989, when Poland withdrew from Russian occupation, the accounting system was also changed. The new market was driven further into the accounting practiced in Western Europe. Since Poland joined the OECD in 1996 and the EU in 2004, accounting system and accounting system structure was transformed into a system that would comply with EU standards. During the early twentieth century the accounting system and standards have been completely changed when the political situation changed dramatically.

During the 15 years of transition in 1989, the Polish economy has changed considerably. Although Poland still has a high unemployment rate, its GDP was growing at a rate considerably higher than the average of the 15 old EU member states. Economic success was made possible by adapting to new realities accounting system. In 1989 Poland had to change its rules and legal basis of accounting. Its historical basis for this change was the Commercial Code of 1934 when Poland had a market economy. Despite the difficult situation he was in, Poland was able to bring most of the changes necessary to ensure that the accounting should not be an obstacle to economic growth, although some measures can be regarded as temples. Poland still has a lot to do but with emphasis on the development professionalism accountants and auditors and legal flexibility shape is like Poland would be in the near future a system that is fully in line with the OECD and the EU regarding requirements IFRS. Reporting IFRS may have an impact on taxation, a necessary step is to harmonize national accounting Standards IAS / IFRS thereby independent of income tax accounting.

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