

INAUGURAL LECTURE FOR OPENING THE ACADEMIC YEAR 2000/2001

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## INTERNATIONAL ACCOUNTING STANDARDS AND POLISH LAW FOR ACCOUNTING

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The following lecture deals with the impact of international accounting norms on the shape of Polish balancing law. It presents the premise of harmonizing accounting on an international scale, the most important international norms of accounting, and the influence of these norms on the legislation relating to accounting in Poland.

The end of the last century presented a significant development of the world economy, leading to globalisation. Globalization of the economy is accompanied by such phenomena as:

- development of the international capital market
- creation of international business corporations
- development of supra-national organizations
- extending economic co-operation and trade exchange among countries
- increase of importance of international business organisations.

Globalization of the economy has been achieved mostly through the development of international financial markets. Such development is possible through the gradual relaxation of barriers related to capital flows among different countries of the world, when capital flow takes place from worse to better companies. Thanks to such direction of flow of capital, the globalization of the market can contribute to an increase of productivity of the whole world's economy, not only the economy of particular countries.

Participation in international financial markets is however connected with risk. Therefore participants of these markets are interested in appropriate ways of minimizing risk. To minimize risk effectively, it is necessary to possess relevant information presenting companies track record. The main source of information on this subject are financial reports of companies which are created in the system of accounting. It is calculated that accounts provide approximately 70% of economic information.

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The processes of globalization and internationalization of the economies of various countries contribute to an increase of the role played by accounting in business activities. Accounting is considered to be a universal world language of business since it presents, using figures, the financial results of decisions taken in companies. The essence of accounting is to present in suitable cross-sections the current state of assets, the financial situation and the progress of economic processes and company results.

Accounting is conducted within companies according to particular principles which have been formulated as a result of various factors. One group of principles has been shaped under the influence of historical development. Such principles constitute universal principles of accounting and all accounting systems are based on these. The shape of principles of accounting is also influenced to a large degree by the social and economic conditions of a given country. By these factors we can understand the legal system, tax system, the political situation and the cultural environment.

The principles of accounting originating from separate national sources have led to the creation in particular countries of diverse systems of accounting with their own specific features. Therefore financial reports of companies from different countries are not fully comparable. Accounting as a language of business understood in a certain country becomes less communicative in cases when economic transactions go beyond its borders. This affects not only investors, but also other participants of the market coming from different countries: contracting parties, competitors and clients.

The development of international financial markets enforces on the participants of these markets the necessity of knowing and respecting accounting systems on an international scale. The fundamental issue for accounting in these processes is increasing the legibility of financial reports for the partners from different countries, so as the financial reports of companies are understandable for the players in the market of different countries. This creates the need to adapt the accounting system of a given country to the needs of the global market and respect for the international context. The necessity for adapting the principles of accounting to the needs of the global market becomes a source of challenge for accounting.

A knowledge of the principles of only one country's accounting system is not enough to participate in global competition. Hence the need to consider the principles of accounting in an international context. Challenges stemming from globalization have an influence on the harmonization and extension of the scope of accounts. Their aim is to react to the needs of the users of financial reports of participants in the market from different countries.

The necessity for the harmonization of terminology and principles of accounting on an international scale has been reflected in the preparation of the norms of accounting of a supra national character. Among these norms the most important are:

- International Accounting Standards
- Directives of the European Union relating to accounting.

The International Accounting Standards are prepared by the Committee for International Accounting Standards, based in London, and do not have the nature of legal regulations. These standards are certain general directives and models regarding particular issues in accounting. The fundamental task of the International Standards of Accounting is to provide the basis for a comparison of financial reports on an international scale. This is achieved by the standardization of the ways of gathering and presenting fundamental financial categories in reports.

The Committee has prepared nearly forty standards, and the solutions used in them have been prepared with regard to defined conceptual assumptions called principles of accounting. These assumptions are related to financial reports of a general purpose prepared by private and public companies.

The theoretical assumptions state that the aim of financial reports is to provide information about the financial condition, performance results and changes of the financial situation of an economic unit. Such information should be useful for a wide-ranging spectrum of users when appraising the performance of economic units and when taking economic decisions. Among the users of reports there are: investors, employees, contracting parties, customers, governments, state agencies and society.

The theoretical assumption of International Accounting Standards state that the primary rule of correct accounting is the principle of the true reflection of the state of a company. According to this principle, financial reports should present a true and honest picture of the financial situation, the performance, and changes in the financial situation of the unit. This principle requires that the basic financial reports are supplied with additional information ensuring the requirement of an honest presentation.

The realization of the primary principle of accounting - the principle of faithful reflection - enforces the respecting of several other principles. Among the two fundamental principles of the theoretical assumptions of the International Standards of Accounting there are:

1. The principle of going concern.
2. The accruals principle.

The principle of continuing activity states that the economic business unit will still run its activities in the foreseeable future, meaning usually at least

twelve months from the date of balancing of accounts, although it does not have to be restricted to that period. This principle assumes that the business unit does not intend in a significant way to restrict the scale of its operations. Therefore this principle cannot be applied when the unit is being closed down or changes its legal identity. The realization of the principle of continuing activity is expressed through presenting in financial reports the information enabling the appraisal of success of future activities of the unit.

The accrual principles obliges the business units to record transactions and business occurrences in accounting books and financial reports for the relevant period. According to this principle, costs and proceeds should be allocated to the periods when they occurred, disregarding the completion of payment and receiving the financial means. Similarly, the liabilities and dues should be ascribed to such periods in which they have occurred disregarding the completion of financial operations.

Among the other principles of accounting on which the solutions used in International Accounting Standards are based, there are also:

3. The principle of continual presentation.
4. The principle of prudent appraisal.
5. The principle of commonsurability of costs and revenues.
6. The principle of relevance.
7. The principle of comparability.
8. The principle of prohibiting indemnity.

The principles arriving from International Accounting Standards are to a large extent included in the Directives of EEC, now the European Union. Directives regarding accounting are the results of work on the harmonization of accounting within the EU and they oblige the member countries of the EU to adapt their national legislation to the solutions contained in the directives. The EU Commission has prepared the following five directives regarding accounting:

1. Directive IV from 1978 regarding annual financial reports of companies.
2. Directive VII from 1983 regarding consolidated financial reports of companies.
3. Directive VIII from 1984 regarding qualifications of people authorized to examine account books.
4. Directive from 1986 regarding financial reports of banks and other financial institutions.
5. Directive from 1991 regarding financial reports of insurance companies.

The solutions contained in the currently binding directives of the EU in several places are not compatible with the International Accounting Standards as the EU operates according to its own law. However, the new strategy of the

EU related to the financial services for the consolidation and development of the capital market has its implications for accounting. The EU Commission suggests adapting the directives to the rules contained in the International Accounting Standards.

Already in 1995 the Commission acknowledged these standards as the basis of consolidating the financial reports of 275 corporations listed on foreign stock markets. It is forecast that in the next few years the number of public companies based in the EU and complying with these standards will total 7,000. It is forecast that all the public companies of the EU countries preparing consolidated financial reports will adopt the International Accounting Standards. With regard to the remaining companies, the member countries of the EU will have the right to request or allow the application of these standards to published financial reports.

According to the proposal of the EU Commission, such standards should be legally implemented in member countries. Therefore the modification of the Directives of the EU regarding accounting should be completed by 2002; member countries will be allowed three years to introduce new regulations into their national rules.

The necessity of internationalization relates also to Poland which stems from two fundamental reasons. Firstly, adapting the principles of accounting in Poland to the rules binding in Western countries is a condition of significant amounts of capital coming into Poland in a system of foreign investments and credits. Secondly, it is connected with the intentions of Poland of joining the European Union since, according to the European Treaty, our country is obliged to adapt its regulations in accounting to the legislation of the EU.

The development of a market economy and the progressing transformation of the system of ownership and internationalization of the economy also forced some irreversible changes to the Polish accounting system. At the same time there has been a significant increase in the importance of accounting, the regulations of which have been given the status of an Act of Polish Parliament. There has also been an increase in interest in accounting among the general public relevant to the role played by it in the market economy.

The Act regulating accounting is a fundamental act of law regarding the principles of running accounts in Poland. The Act contains regulations in the aspect of accounting with regard to all business units and, thanks to it, these principles have been presented in a uniform and comprehensive way. The fact of giving these regulations the status of Acts of Parliament makes it Polish balancing law. This contains the whole spectrum of issues connected with running accounts of a unit, from the moment of a business operation taking place through its recording in the account books, and preparing financial report

of the unit in order to examine and publish the financial report. Therefore the Act enables the creation of a universal system of records and reports. This system is an important instrument of measuring and presenting resources and economic results of a business activity of a unit and its results and financial situation.

The regulations adopted in the Act are connected to European and world solutions. The most significant influence comes from the Directives of the EU regarding accounting and the Act gained the certificate of consistency with EU legislation. At the same time the Act also incorporates those principles contained in the International Standards of Accounting which are not contradictory to the EU Directives.

The legislation of the European Union is approaching a moment of change because the Directives are slightly outmoded. On the other hand, the International Accounting Standards were updated in the second half of the 1990s. In this situation the required changes have been introduced to the currently operating Act of accounting. The basis of amendment has also been influenced by the wish to implement experience from the five-year period of the act operating. In particular, three issues are concerned here:

1. filling the loopholes in the Act regarding mergers and acquisitions of companies, financial and operational lease, financial instruments and contracts for long-term building projects,
2. tightening of some definitions and terms and correction of apt decisions in order to eliminate ambiguity of given solutions,
3. rationalization of costs of running accounts through the creation of the possibility of simplifications and restricting the number of units obliged to have their financial reports examined by certified auditors.

Thanks to the implemented amendments, there will result a higher quality of norms regulating the principles of accounting in our country, which constitutes an important premise in appraising the attractiveness of the Polish economy for foreign investors.