Setting new accounting standards

Professor **Zbigniew Messner**, President of the Accountants Association in Poland, explains to "Polish Market" how high accountancy standards are kept in light of the global economic crisis.

PM When we talked a few years ago, while Poland was preparing to join the European Union, you were in charge of the Accounting Standards Committee at the Ministry of Finance, responsible for drawing up the first domestic standards in Poland. Today Poland has implemented the EU laws, and the conditions are different. How do you assess Polish accountancy, particularly in the context of the global economic crisis?

When Poland joined the European Union in 2004, our accountancy laws did not call for much adjustment, as Poland had been using statutory rules of accountancy standards and the certified auditor profession for ten years. Those rules took into consideration all the requirements of proper accountancy functioning in a modern economy. It should be remembered that the acts were based on long-standing achievements of the Polish academia staying in close touch – also during the period of planned economy – with the key global centres shaping the accountancy solutions worldwide. The combination of this knowledge, other scientific accomplishments, and business practice experiences along with the joint interdisciplinary reflection – even if only during Accountancy Congresses – has made it possible to adapt legal and organisational solutions of accountancy to the current economic needs.

PM It is often said that many crisis phenomena in the global economy result from the violation of the rules of business ethics, including those related to accounting. What does your Accountants Association do to prevent such situations?

The quality of accounting stems from two factors: personnel qualifications and the observance of professional ethics rules. The Association of Accountants in Poland has been active in both fields for a number of years. We have introduced a system of professional certification allowing for obtaining professional qualifications at consecutive stages – from an accountancy assistant to a certified accountant – and ensuring constant improvement of skills and knowledge of both our members and other accounting professionals. We have also approved an accountancy ethics code which specifies the rules of behaviour expected of people working in this field. It reduces the risk of situations conflicting with applicable laws and professional canons. Our solutions are based on principles developed by the International Federation of Accountants (IFAC).

There is a positive climate of public support for our actions, reflected in the growing number of companies signing the Accountancy Ethics Code, and the participation of chief Polish business organisations in the Employers Council at the Accountants Association in Poland. Therefore, we hope that the necessity to observe rules of ethics in regard to financial statements will be taken seriously by the people who are active in all spheres of business in Poland.

PM For many years the Accountants Association in Poland has taken part in the work of IFAC and European regional organisations. It has cooperated with professional accountants associations in numerous European countries. What Polish experiences are we transferring at the international level? What solutions – developed due to those contacts – have been implemented in Poland?

We have been an active member of IFAC for over 20 years. Our representative is a member of the Developing Nations Committee at IFAC. Our delegates take part in the World Accountancy Congresses. In Poland, we have been popularising IFAC solutions, such as educational and ethical standards mentioned before. Let us not forget that the first texts of International Accounting Standards in Polish, announced by the European Commission, were based on translations prepared by our Association.

We are also active in Europe, participating in the European Federation of Accountants and Auditors for SMEs (EFAA) based in Brussels. Furthermore, we carry out projects within the framework of bilateral cooperation with various organisations from a number of countries.

Janusz Turakiewicz

> **There is a positive climate of public support for our actions, reflected in the growing number of companies signing the Accountancy Ethics Code. We hope that the necessity to observe rules of ethics in regard to financial statements will be taken seriously by the people who are active in all spheres of business in Poland.**

Where is global financial reporting heading?

Prof. Zbigniew Luty, President of the Scientific Council at the Accountants Association in Poland

The evolution of balance-sheet theories and the valuation concept in accounting indicate that financial reporting is constantly looking for an adequate form for disclosing information about companies. In 2009 the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) proposed a new model for presenting information in financial statements, especially information on an entity's financial position, comprehensive income and cash flows. According to commentators, there are three reasons which justify the work on a new reporting model:

1) lack of harmony among financial information measurement, presentation and disclosure;
2) weak relationships among individual parts of the statement;
3) not enough detail in disclosed information.

It is worth considering whether the new proposals mean a qualitative change to financial reporting or merely a change in the structure of the disclosed data, and whether the reasons mentioned above justify the work on new forms.

The financial statement structure as proposed by FASB and IASB is as follows:

Balance sheet – statement of financial position	Profit and loss statement – statement of comprehensive income	Statement of cash flows
Business activity • operating activity • investing activity	Business activity • operating activity • investing activity	Business activity • operating activity • investing activity
Financing activity • assets • liabilities	Financing activity • revenues • expenses	Financing activity • cash inflow • cash outflow
Income tax expense	Income tax expense	Income tax expense
Discontinued operations	Discontinued operations after income tax	Discontinued operations
	Other comprehensive income after tax	
Equity		Equity

Source: J. Gierusz, Ocena przygotowanego przez IASB i FASB projektu sprawozdania finansowego, Zeszyty Teoretyczne Rachunkowości, No. 56/2010, p. 51.

In my view, the proposed financial statement structure does not represent a real change – it is merely a structural change, not a qualitative one. All the information that is to be disclosed in the new financial statement format is already subject to disclosure under the existing accounting standards. The only difference is the layout. A real difference would be to introduce new information to the financial statement, like for example:

:: virtual assets, resulting from financial engineering;
:: depending on the risk of operating on, for example, the financial market;
:: value of securitisation and resecuritisation instruments;
:: resulting from using fair value.

The opinion that the division of each part of the financial statement into identical areas of activity will increase the clarity – or, in other words, the information potential – of the statement is also controversial. On the contrary, one may expect that problems will arise, for example with the proper division of receivables and payables (...).

The third argument – that information contained in the financial statement is not detailed enough – is also controversial. There are opinions that the statement is too detailed and prepared according to outdated rules, which are not compatible with reality and have been spoiled by IFAC manipulations. I think it is wrong to assume that the main user of the financial statement is the investor. Serious investors do not make analyses themselves. They use reports provided by ratings agencies, consulting firms and business intelligence organisations. It is these firms that are recipients of information contained in statements. Through lobbying, they try to adjust the statement structure in such a way as to receive as much information as possible. It should be noted that these firms are paid decently for their analytical and advisory services while they receive the input material in the form of information free of charge.

Therefore, I think that:

1) It should be obligatory for organisations to issue statements based on historical values, which may be checked for correctness (ex post data);
2) Any other information should be made available as a service sold to users. The information may include statements of risk identification and assessment, the use of cautious valuation principle, virtual reporting assets, intellectual potential, intangible assets (...), and assessment of the value of long-term and short-term investments, including securitisation and resecuritisation instruments.

Another problem is the structure and force of balance-sheet law. Balance-sheet law has only a slight influence on business relationships. Accountants have to know how to deal with even the most sophisticated and complex relationships, contracts signed and carried out. They have to valuate them, present in books and disclose in financial statements. Why is not anyone asking about the legality of deals, in which the risk is impossible to assess – deals which cannot be valuated. Why is it possible to carry out virtual transactions, transactions which inflate equity? Why is it possible to "cut risk into strips" attached to financial instruments with the need to valuate them? Will accountants be blamed again for future crises?

The accounting profession already has methods to correctly measure and present financial information. The methods have been worked out in practice and theoretically described, and should provide a basis for the structure of the financial statement. However, this stands in no contradiction to special-purpose statements ordered by special customers and prepared to meet their specific needs. ::

Geopolitics of accounting

Prof. Aldona Kamela-Sowińska, Chairperson of the Foreign Commission, Accountants Association in Poland

ACCOUNTANCY HAS BEEN UNDERGOING TRANSFORMATION. The simple accounting we have all known for years is becoming history in front of our eyes. The new accounting system is being shaped by geopolitical conditions and globalisation.

The new accountancy must be qualitatively better than the traditional one, but it is not easy to choose the criterion for assessing this phenomenon. The significance of practice must be particularly underlined. Accountants have to deal with all the errors, illogicalities, inaccuracies, and inconsistency in the broadly defined economic law. Only knowledgeable experts in business practice are able to successfully cope with these problems.

Changes in accounting standards reflect the search for new solutions to complex problems and the necessity to adapt accounting to the needs of rational management of the decentralised economy.

In Poland, the development of theoretical and practical solutions regarding accountancy will be influenced in the near future by a number of factors, such as:

a) pace and scope of transfer to a market economy;
b) internationalisation of the Polish economy;

The latter fact has contributed in Poland to:

:: the development of international groups of companies, which – in accountancy – has resulted in drawing up mandatory consolidated statements, and using MSR and MSSF;
:: changes to the banking system, including the presence of globally operating banks in the Polish banking system;
:: development of insurance companies offering various, sophisticated services;
:: establishment of numerous, new institutions (trust funds, brokerage offices, franchise and factoring facilities, etc.);
:: increase in the number and types of securities, not only shares;
:: development of the Warsaw Stock Exchange and the related significant increase in the number of Polish companies listed on the Warsaw floor and, in the future, on foreign stock exchanges, which makes it a must to use accounting methods in accordance with global standards;
:: the need to link our stock exchange with the global ones; the need for institutions and organisations to get commercialised (for example: sports clubs).

Altogether, all these activities will bring about tighter links between Polish accounting and international accountancy solutions.

The basic problem faced by entities doing business in a free market economy, within the framework of the omnipresent globalisation, is to find a point of balance between profit maximisation and moral liability, while using various, not always ethical, methods of profit generation.

OVER THE LAST FEW YEARS, demand for information and transparent activities conducted by companies has gained increased significance. It is easy to notice that social awareness and growing interest in the social and environmental aspects of business, combined with increased attention from the mass media, have borne fruit in the form of more information being published by companies in their statements.

To survive and grow, companies have to be deft and able to undertake socially required actions, including distribution of economic, social, and political benefits among stakeholder groups which drive them.

People used to think that "what is not explicitly forbidden by law is allowed", while company management and ethics were considered as having nothing to do with each other. These days, companies are expected to be socially sensitive. More and more pressure is put on image and reputation which determine a company's market value.

Is it enough, then, for businesses to rely solely on "ordinary decency" which means nothing more than observing the rule of law?

AT PRESENT, IN THE LIGHT OF ECONOMIC GLOBALISATION, the nature of the national economy and its processes, as well as moral principles observed by companies, render much influence not only on the social conditions of a given country but also the social and economic standing of its neighbours or even entire geopolitical regions.

Each period in history has problems of its own. The last century showed us that most trouble is caused by economy, mainly because of the complexity of its processes and increasing globalisation trends. ::

Social awareness and growing interest in the social and environmental aspects of business, combined with increased attention from the mass media, have borne fruit in the form of more information being published by companies in their statements