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Accounting Policies in Polish and International Legal Regulations

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***Abstract*—**Accounting policies are a set of solutions compliant with legal regulations that an entity selects and adopts, and which guarantee a proper quality of financial statements. Those solutions may differ depending on whether the entity adopts national or international accounting standards.

The aim of this article is to present accounting principles (policies) in Polish and international legal regulations and their adoption in selected Polish companies listed on the Warsaw Stock Exchange. The research method adopted in this work is the analysis and evaluation of legal conditions in Polish companies.

***Keywords*—**Accounting policies, International Financial Reporting Standards, Financial statement, Method of measuring.

I. Introduction

ACCOUNTING policies are defined as a set of principles applied in various areas of activity by state institutions and authorities as well as entities conducting local, national and international business activity [1]. Those principles have been established by national institutions as legal regulations and by international institutions as general guidelines and recommendations. The purpose of international principles is the normalisation and standardisation of accounting [2]. Their goal is to ensure presentation of uniform information in general purpose financial statements. The advantage of such statements is comparability of data, which facilitates external users' decision making and reduces time allocated to analysis.

In the Polish accounting system, accounting principles differ from the principles specified in the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), which constitutes a great challenge for many stakeholders and business entities in terms of evaluation and analysis of financial situation as well as introduction of changes, and most importantly, implementation of IAS/ IFRS [3].

The aim of this article is to present accounting policies (principles) in Polish and international legal regulations, and their application in selected Polish companies listed on the Warsaw Stock Exchange.

The research method adopted in this work is the analysis and evaluation of legal conditions in Polish companies.

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II. Accounting Policies Pursuant to Polish and International Legal Conditions

In Poland, the primary law on accounting is the Polish Accounting Act of 29 September 1994, with further amendments (PAA). According to Article 4 of the Act, business entities which keep books of accounts shall [4]

- adopt accounting policies
- keep the books of accounts based on accounting documents
- conduct stocktaking
- measure assets and liabilities
- prepare financial statements
- gather and store accounting documents
- have financial statements audited

The Polish law defines accounting policies (principles) in Article 3 of the Polish Accounting Act as "solutions allowed by the Act, selected and applied by an entity, including those specified in IAS/IFRS, ensuring the required quality of financial statements."

The universal accounting principles include [4]:

- true and fair view (Article 4 of PAA),
- substance over form (Article 4 of PAA),
- consistency principle (Article 5 of PAA),
- accrual basis (Article 6 of PAA),
- matching principle (Article 6 of PAA),
- separate valuation principle and no offsetting (Article 7 of PAA),
- materiality principle (Article 8 of PAA).

The above principles are treated as statutory and obligatory; however, the Polish law also specifies optional principles allowing the manager of the entity to select specific principles pertaining to: [5]

- measuring assets and liabilities,
- determination of financial result,
- determination of cash flows,
- keeping books of accounts (chart of accounts, list of books of accounts and data processing system),
- documenting business operations,
- making entries in books of accounts,
- data protection.

Special attention is paid to the preparation and approval of accounting policies which should include information on:

- definition of financial year
- adopted level of materiality (for selected groups and individual transactions)
- list of general ledger accounts and subsidiary ledger accounts, ensuring (Article 17 of PAA) that subsidiary accounts are kept for the following items:

- property, plant and equipment
- trade receivables and payables
- employee receivables and payables
- sales and purchase transactions
- costs and material items of assets
- cash transactions

- frequency of stocktaking (art. 26 of PAA) and methods of conducting stocktaking as well as documentation and reconciliation of the results of stocktaking
- principles of recording and calculating operating costs and a type of profit and loss account
- type of cash flow
- methods of recording and measuring (e.g. FIFO, LIFO) tangible current assets (Article 17 of PAA)
- methods of presenting accruals and prepayments, and costs of goods

Accounting policies resulting from IAS/ IFRS are included in the conceptual framework and mainly pertain to the qualitative characteristics of useful financial information such as: relevance and faithful representation which have been enhanced by comparability, verifiability, timeliness and understandability [6]. The underlying assumption is the going concern assumption.

Other aspects related to accounting policies are described in specific standards and constitute their extension. IAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements which include: fair presentation and compliance with IAS/IFRS, accrual basis of accounting, materiality and aggregation, and offsetting. Undoubtedly, IASB has addressed the importance of international standards and significant differences in accounting policies between specific countries by introducing IFRS 1 *First-time Adoption of International Financial Reporting Standards* [6].

III. The First-Time Adoption of IFRS by the Example of the Polish Stock-Listed Company MFO S.A.

MFO S.A., a company manufacturing steel profiles, was founded in 2000 as a Polish limited liability company, and in 2011 the shareholders decided to transform it into a Polish joint-stock company to be listed on the regulated market (the Warsaw Stock Exchange) in 2013. Due to the change, the company's financial statements for 2013 had to be prepared in accordance with IFRS. The date of introducing international regulations was 1 January 2010, and according to that date the company prepared the financial statements in compliance with IAS/IFRS.

The introduced changes required, for example, changes in measurement methods, principles of presenting information in financial statements and disclosure. The most significant changes in the accounting policies of MFO S.A. regarded the areas described below [7].

A. Property, Plant and Equipment

At the initial recognition date, an item of property, plant and equipment is measured at its cost. At the reporting date, the item is measured at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation (straight-line depreciation method) and impairment losses. If an asset's carrying amount is increased as a result of revaluation, the increase should be credited to other comprehensive income and accumulated in equity under revaluation surplus. However, the increase should be recognised in profit and loss under other operating revenues to the extent it reverses a revaluation decrease of the same asset previously recognised in profit and loss. If an asset's carrying value is decreased as a result of revaluation, the decrease is recognised in profit and loss under other operating costs.

B. Intangible Assets

Intangible assets are recognised at their cost. A depreciable amount of an asset is allocated under the straight-line method over the asset's useful life. In the case of an asset for which there exists an active market, at the reporting sheet date it is measured at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment losses. Revaluation is carried out at each financial year-end while in the case of assets, the fair value of which does not change significantly, revaluation is carried out once every three or five years. At each reporting date, an entity conducts a review in accordance with MSR 36, and if an asset is impaired, the entity recognises the impairment loss in profit and loss under other operating costs.

C. Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured at fair value and measurement gain or loss is recognised in profit and loss for the period in which it arises.

D. Inventories

Inventories are measured at cost not higher, however, than the net selling price. The cost of inventories comprises all costs of purchase, costs of conversions and other costs incurred in bringing the inventories to their present location and condition. Items of inventory are used according to the FIFO formula. Inventories are written down to net realisable value item by item or by similar or related grouped items. The amount of any write-down of inventories to net realisable value and all losses of inventories should be recognised as an expense in the period the write-down or loss occurs.

E. Receivables

In MFO S.A.'s financial statements, receivables are presented as short-term receivables and long-term receivables. Short-term receivables are recognised at nominal value at the date of purchase or construction. At the reporting date, short-term receivables are measured at the amount expected to be received, following the prudence concept. Write-downs are determined and recognised according to the economic situation of the receiver, e.g. debtors in liquidation, debtors whose bankruptcy petition has been dismissed etc.

F. Equity

Equity is recognised at the amount specified in the Memorandum of Association and entered in the Polish National Court Register.

G. Payables and Provisions

Similarly to receivables, payables are divided into short-term payables and long-term payables and are recognised at the amount expected to be paid, including statutory interests. Financial payables are measured according to IFRS 9.

H. Income Taxes

The company's tax is computed based on the company's taxable result in a given year. Tax loss/gain is different than the balance sheet result due to the exclusion non-tax revenues and expenses. Tax charges are calculated according to tax rates applicable in a given year. Deferred tax is computed under the balance sheet method as the tax expected to be paid or recovered in the future.

I. Revenue from Sale and Cost of Sale

Revenue from sale is recognised when the following conditions have been satisfied:

- the entity has transferred to the buyer the significant risks and rewards of ownership of the goods
- the entity retains neither continuing managerial involvement with nor effective control over the goods sold
- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the entity

J. Financial Revenues and Expenses

Financial revenues include:

- charged and received interest
- cancelled interest on payables
- surplus of foreign exchange gains over exchange losses
- release of impairment loss of receivables related to financial activity, e.g. default interest

Financial expenses include:

- loss on the sale of investment other that property investment
- loss on the sale of debts
- charged and paid interest and fees
- cancelled receivables related to financial activity
- surplus of foreign exchange losses over exchange gains
- provisions related to financial activity
- impairment loss of receivables related to financial activity

Data regarding presented financial information are included in one of the components of financial statements – notes, in which every business entity is required to disclose its accounting principles (policies).

IV. Measurement Methods According to the Accounting Policies of KGHM PolskaMiedz S.A. Group

The most significant accounting principles adopted by KGHM PolskaMiedz S.A. Group in relation to specific items are presented in notes as described below [8].

A. Property, Plant and Equipment

The Group's property, plant and equipment mainly include property related to mining and steel business activity (including own land, buildings, civil engineering facilities, shafts) as well as machinery, technical equipment, vehicles and other movable fixed assets. At the initial recognition date, an item of property, plant and equipment is measured at its cost and is increased by borrowing costs. The cost also includes discounted costs of liquidation of fixed assets remaining after discontinued underground mining activity and other facilities which according to the law are subject to liquidation after activity has been discontinued.

At the reporting date, an item of property, plant and equipment is measured at its cost less any accumulated depreciation and any accumulated impairment losses. Depreciation charges (liquidation costs recognised at initial value) are based on the straight-line method or the units of production method which is applied when the consumption of economic benefits embodied in the asset is directly related to the volume of extracted ore and that extraction or processing has not been stable over the asset's useful life.

B. Intangible Assets

At initial recognition, an item of intangible assets is measured at its cost similarly to property, plant and equipment while at the reporting date, it is measured at its cost less any accumulated depreciation and any accumulated impairment losses. Depreciation charges are based on the straight-line method over the asset's expected useful life.

C. Investment Property

At initial recognition, KGHM's investment property is measured at its cost, including the costs of transaction. At the reporting date, an investment property is measured at fair value, and measurement gain or loss is recognised in profit and loss for the period in which it arises.

D. Inventories

KGHM's inventories include: materials, semi-finished goods and work in progress (e.g. copper ore and copper extract under processing) as well as finished goods and commodities. Revenue is measured as follows:

- materials and commodities – at acquisition cost
- finished goods and semi-finished goods – at actual construction cost
- work in progress – at weighted average construction cost

The use of inventories and the value at the reporting date are determined as follows:

- materials and commodities – according to an average price determined as a weighted average of prices of a given asset
- finished goods, semi-finished goods and work in progress
– at the actual weighted average construction cost

E. Receivables

Trade receivables are initially recognised at fair value. After initial recognition, an item of trade receivables is measured at depreciated cost under the effective interest method, including impairment losses, but trade receivables with maturity less than 12 months from the date they arise are not subject to discount. Receivables that do not constitute financial assets are initially recognised at nominal value, and at the reporting date, they measured at the amount expected to be received.

F. Payables

In accordance with IAS 39, payables are measured under the amortised cost method. Short-term trade payables are recognised at nominal value. Payables which are not financial payables are measured at the amount expected to be paid.

G.Income Tax

Income tax recognised in profit or loss includes current tax and deferred tax. Current tax is computed in accordance with the applicable tax laws. Deferred tax is determined based on tax rates and tax regulations which are expected to be applicable when an asset is realised and provision released, adopting the tax base and tax regulations which are legally or actually applicable at the end of the reported period.

H.Revenue from Sale

KGHM's revenue from sale includes revenue from the current operating activity, i.e. revenue from the sale of goods, services, commodities and materials, including discounts and other reductions of selling prices.

Revenue from sale is recognized at fair value of received or due payments, reduced by a value added tax and discounts. Moreover, KGHM recognizes other operating revenues and financial revenues. KGHM's other operating revenues (i.e. revenues indirectly related to the conducted business activity) include:

- revenue from and profit on financial investment (including revenue from dividends and interests)
- profit on foreign exchange differences, excluding foreign exchange differences on payables which constitute the company's sources of financing
- release of unused provisions previously recognised as other operating expenses
- profit on sale of property, plant and equipment and intangible assets
- received subsidies and donations

Financial revenues consist of revenue related to financing the business activity, including:

- net profit on foreign exchange differences on payables related solely to financing KGHM's business activity (loans, credits, bonds, financial lease, etc.)
- revenue from realisation and fair value measurement of derivatives related to the company's payables which finance the Group's business activity.

I. Operating Expenses and Other Operating Expenses

Operating expenses are recognised in profit and loss based on the direct relation between expense and revenue, i.e. under the matching principle. In the case of purchase of copper materials, the cost of which is determined after recognising the purchase in the books of accounts, the inventory is recognised at cost expected at the date of inventory recognition. The cost of goods sold is adjusted at the end of each reported period by changes in fair value of embedded derivatives, separated from the host contract.

Other operating expenses comprise expenses indirectly related to the operating activity, including:

- costs of and losses on financial investment
- loss on foreign exchange differences, excluding foreign exchange differences on payables which constitute the Group's sources of financing
- provisions for disputes, penalties and damages, and other costs indirectly related to the operating activity
- made donations
- loss on the sale of property, plant and equipment and intangible assets

J. Financial Expenses

Financial expenses include the expenses related to the financing of the Group's business activity, especially:

- interest on the bank loan in the current bank account
- interest on short-term and long-term loans, credits, debt financial instrument and other sources of financing, including reversed discount on long-term payables
- net loss on foreign exchange differences on payables which constitute the Group's sources of financing
- cost of the realisation and fair value measurement of derivatives related to the payables which finance the Group's business activity.

V.CONCLUSION

Accounting policies play an important role in the functioning of a business entity as they set out specific guidelines for the recognition, measurement, presentation and additional explanation of the entity's financial standing and business activity result, enabling the entity to apply the most beneficial recognition of specific items. [9]

In many areas, following both national and international solutions, one can see that accounting policies are a set of principles which allow each business entity an individual approach.

Despite numerous attempts at harmonising and standardising, the user of financial information needs to have a great knowledge of finances or accounting or needs to consult specialised advisors who can explain financial statements information in detail. It cannot be expected that the changing surrounding conditions will not result in further changes; therefore, national and international accounting policies will remain similar, but never the same.

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