Accounting and Management Information Systems
Vol. 13, No. 2, pp. 281–310, 2014

The Polish accounting system and IFRS implementation process in the view of empirical research

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Abstract: The paper analyses the process of implementing International Financial Reporting Standards (IFRS) in Poland. It presents the development of accounting in its historical perspective focusing on such events as the partitions of Poland, wars, the period of the centrally planned economy, the period of the political and economic transformation and Poland's membership in the European Union. The authors discuss the relationships between tax and financial accounting and identify the main users of information generated by the accounting system; also, they describe the Polish capital market as well the organizations which contribute to the development of accounting. The further part of the work presents the scope of IFRS implementation, identifying four stages of the process as well as the entities which apply international standards. The paper stresses that Polish accounting regulations are based on the simultaneous implementation of IFRS convergence and adoption. The authors point to a number of benefits derived by companies from IFRS implementation including the higher quality of financial statements and their comparability, lower costs of capital as well. Also, the authors present an extensive review of literatures and the results of major empirical research in the area of IFRS implementation in Poland.

Keywords: IFRS, Poland, implementation process

JEL codes: M41

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[2] The authors would like to thank Nadia Albu and Catalin Albu for their comments on the paper.

1. Introduction

Since 2006, the Polish accounting regulations have followed two strategies of development. From the perspective of the adopted accounting regulations, two groups of entities can be identified: those which apply International Financial Reporting Standards (IFRS) and those which act in compliance with the Polish accounting Act. This dual system results from Poland's membership in the European Union and the adoption of Regulation 1606/2002 of the European Parliament and the Council on the obligation to apply IAS/IFRS in listed companies, banks and insurance companies in their consolidated financial statements.

The introduction of IFRS in Poland posed a major challenge for companies. It necessitated implementing expensive financial and accounting computer systems, developing new plans of accounts as well as revaluing assets and depreciation procedures. Business entities are obliged to regularly monitor changes to IFRS, which is a difficult task due to delayed publications in the Polish language. However, this process is beneficial for businesses, which is stressed in the paper.

The incorporation of IFRS into the Polish legal system was an interesting process from the point of view of accounting researchers. They conducted analyses of financial statements before and after IFRS implementation, focusing on the comparability of particular items according to Polish law and IFRS, the impact of IFRS implementation on selected financial indicators, the effectiveness of and response of capital markets to IFRS, as well as detailed analyses of selected accounting areas before and after IFRS implementation.

This work aims to present the characteristics of the accounting system and the IFRS implementation process in Poland. To this end, the authors present a review of literatures in this field. Special attention is given to Polish research studies aimed to analyse IFRS implementation in Poland.

Poland is the biggest new member of EU in terms of economy and population since the entry of Spain in 1986. So far, at the international level, the issue of IFRS implementation in Poland has been analysed only from a broader perspective, usually when the problem was discussed with reference to a larger group of European countries. This strand of research was mainly of normative and qualitative character due to the lack of consistent and high quality empirical data which a foreign researcher found difficult to access or collect. One of the most comprehensive studies on Polish accounting was presented by Larson and Street (2004: 103-105) covering the period of 2002-2004 just before Poland's accession to the EU. This exceptional study shows the most important characteristics of the Polish accounting system at the time from the perspective of IFRS implementation.

Meanwhile the results of Polish quantitative and qualitative research are not widely known at the international level. This paper extends the knowledge on IFRS implementation in Poland by providing more details and summarizes the most relevant conclusions of empirical research related to the various aspects of the main topic.

The paper has the following structure: section one presents the characteristics of the Polish accounting system, focusing on the general evolution of accounting, the major users of accounting systems, relationships between accounting and tax laws, the advancement of capital markets and corporate governance as well as the institutionalisation of the accounting system; section two presents IFRS implementation in Poland and its expected results (some of the presented areas constitute the subject of empirical research discussed in the further part of the work); section three presents the consequences of IFRS implementation. The identified benefits of IFRS implementation include the improved quality, increased scope and usefulness of disclosed financial information, while potential threats result from the complexity of data and high implementation costs. Finally, section four summarises the main findings and presents concluding remarks.

2. The development of accounting in Poland

The history of Polish accounting goes back to the 15th century. The evolution of accounting solutions, similarly to other countries, was closely correlated with historical events. In the period of the development of the capitalist economy Poland was under the partitions perpetrated by Russia, Prussia and Austria. The legal systems of the particular countries had an impact on accounting systems which developed fastest in the territory occupied by Prussia. In 1807, Napoleon Bonaparte established the Duchy of Warsaw and introduced the Napoleonic Code. Until 1934, when the Polish Commercial Code was introduced, Poland had applied German, Austrian, Russian and Napoleonic codes, which hindered accounting procedures.

In 1939-1944, the territory under German occupation adopted the German accounting system, while the Soviet system was adopted in the territory incorporated into the Soviet Union. The first unified plan of accounts, based on German solutions, was approved in 1946. After World War II the Polish accounting system had to be adapted to the needs of a centrally planned economy. The foundations of the system were laid in the 1950s. The system was characterised by the state's domination over accounting policies and the recognition of the state as the primary user of the accounting system (Krzywda *et al.* 1995: 642). The year 1989 marked the end of a centrally planned economy and the beginning of the political and economic transformation. In 1991, the Decree of the Ministry of Finance on Accounting was adopted, which regulated financial reporting policies. It enabled the Ministry of Finance to determine rules for book-keeping and accounting for enterprises. In 1994, Parliament passed the Act on accounting, certified auditors and their self-government body. Changes in Polish accounting in the subsequent years were driven by Poland's efforts to join the EU, leading to the successful accession in 2004. Two years prior to that date, the 2000 Act on accounting was amended, introducing a great number of new terms and solutions in compliance with IAS and identifying explicit differences between tax and accounting regulations. Also, it gave rise to continuous changes to regulations resulting from Poland's delayed accession to the EU. In 2001, the Polish Accounting Standards Committee was set up, which regulates National Accounting Standards in the form of directives.

Poland's legal system is based on Roman law. Accounting systems in most business entities are regulated by the accounting Act of 29 September 1994 (the accounting Act of 2013). It should be stressed that the Act is subject to continuous changes which adapt it to EU regulations and IFRS. The Act of 29 September 1994 was amended 52 times until 19 April 2013. Additionally, there are several dozen regulations of the Council of Ministers and the Minister of Finance related to specific accounting regulations and a dozen or so executive regulations related to the Act on accounting.

Until 2006, the Act on accounting was the only law regulating accounting policies. In the subsequent years, as a result of the mandatory application of IFRS in specific cases, the Polish accounting regulations were developed in two different directions. Two types of entities can be identified from the point of view of the adopted accounting regulations: those which apply IFRS, and the entities which adhere to the Act on accounting. It should be noted that a number of accounting issues are not regulated by IFRS, so the entities which apply international standards are partially subject to national regulations. The issues which are covered by the Act but not regulated by IFRS include: bookkeeping, stock taking, examination and announcement of financial statements, data protection and criminal liability.
Consequently, the hierarchy of legal regulations for companies applying IFRS is as follows:

1. Valuation of assets and liabilities based on IFRS.
2. Preparing financial statements in accordance with IFRS.
3. Mandatory application of the Act on accounting only in matters not regulated by IFRS.
4. Possibility of applying National Accounting Standards in matters not regulated by IFRS and the regulations set forth by the Act.

The hierarchy of legal regulations for companies which act in compliance with the Act on accounting:

1. Mandatory compliance with all regulations set forth by the Act.

2. Possibility of applying National Accounting Standards in matters not regulated by the Act.
3. Possibility of applying IFRS in matters not regulated by the Act and National Accounting Standards.

The classification of the major users of information generated by the accounting system results from the adopted corporate financing methods. The Polish capital market is still a young market as compared with other European countries. Currently, the Polish economy is dominated by the SME sector, which has developed rapidly since the beginning of the systemic transformation. The significant role of this sector is the effect of the number of businesses and their employees as well as its share in GDP (accounting for approx. 50% of Poland's GDP). In 2011, large entities accounted for merely 0.18% of the total number of Polish companies (*Przedsiębiorczość w Polsce*, 2013: 43).

Since the economic transformation, external capital (bank loans) has been the second most significant source of financing after companies' own funds. Consequently, banks are major users of information generated by accounting systems in most Polish companies. According to Roberts *et al.* (2005 : 409), traditionally, the relationship between Polish banks and companies resembled that of German banks and German companies. In the case of listed companies, financial statements are mainly used by investors and advisors in their investment decisions.

As far as taxation and its relationships with accounting are concerned, significant changes to Polish taxation result from the economic transformation. The following objectives were to be achieved:

- ensuring stable revenues for the state budget,
- ensuring that public and private business entities are taxed according to equal principles,
- introducing the same principles of income taxation for legal and natural persons.

In 1991-1994, the relationship between the tax system and accounting was very strong. The above mentioned Decree of the Ministry of Finance on Accounting, adopted in 1991, was based on the Income Tax Act of 19 December 1980. In that period greater significance was attributed to the control function of accounting related to taxes than to its information-related functions (Jaruga *et al.*, 1996: 886).

The Accounting Act was passed by Polish Parliament in 1994. According to the Act, the main objective of financial statements is to present a true and fair view of the entity's financial and economic condition and its financial profit or loss. Thus, the accounting rules override the tax requirements. With the Accounting Act of 2000, Polish accounting shifted from tax-oriented system toward becoming a tool for decision making by implementing a "substance over form" principle (Dobija & Klimczak, 2010: 361). The contemporary accounting and tax laws are two separate entities in the Polish legal system. The accounting regulations are based on the Act on accounting (or IFRS in the case of selected entities), while tax issues are regulated by tax Acts[1]. As a result, the financial result determined on the basis of accounting principles, along with the calculation of the mandatory tax burden (book tax) differs from the tax base presented in a tax return and current tax obligations (fiscal tax).

However, it does not indicate that income tax regulations are separated from financial accounting for the purpose of settling income taxes and preparing tax returns. Registration for tax purposes is an additional analytical registration which shows differences in costs and revenues according to accounting and tax rules. Those differences result from a different approach to revenues and costs in accounting and tax regulations.

Prior to the entry into force of the Act on accounting, attention was mainly given to permanent differences between accounting and tax results. In 1995, the Act – following IAS 12 - introduced the category of deferred tax. It should be noted that as compared with other free market economies the Polish system is characterised by a large and increasing number of discrepancies between tax and accounting regulations. It widens the gap between tax and accounting rules in business practice and requires tax and corporate finance experts to continuously update their knowledge, which hinders the process of tax planning (Olchowicz, 2006).

Accounting systems are strongly linked with the development of a given country's capital market. Poland's capital market traditions go back to 1817, when the Warsaw Mercantile Exchange was established. The 19th century Warsaw Exchange mainly traded in bills of exchange exchange and bonds. Stock trading on a larger scale started in the second half of the 19th century. In the period between the Two World Wars, Polish exchanges operated in accordance with the President's directive on the organization of exchanges. Apart from Warsaw, stock exchanges operated in Katowice, Krakow, Lvov, Lodz, Poznan and Vilnius. However, the Warsaw Stock Exchange played a key role, accounting for 90% of trade volumes. When World War II broke out, the Warsaw Stock Exchange was closed. After 1945, some efforts were made to resume stock market operations, but they were found to be hardly compatible with the imposed centrally planned economic system.

In September 1989, the new non-communist government embarked on the programme of systemic change and the reconstruction of a free market economy. The structural changes were driven by privatisation and the development of the capital market. Unlike in the case of other countries, in which privatisation processes were carried out within the framework of existing financial institutions, Polish privatisation processes had to be accompanied by the efforts aimed to create the necessary infrastructure for capital markets. The 50-year break in the functioning of Polish capital markets resulted in the absence of relevant laws and institutions. In practice, it implied the lack of experience and expertise. On the other hand, such conditions provided enormous development opportunities. Several alternative solutions were considered, and the decision was made to follow solutions adopted by foreign capital markets and their modern legal and organizational framework. The standardisation and globalisation of world capital markets did not encourage introducing unique national models. The decision to adopt the proven models accelerated the process, allowing for the immediate adoption of target solutions. The development of the detailed stock trading procedures within just a short period of several months was facilitated by expertise and financial assistance provided by France.

Within one month after the passing of the Law on public trading in shares and mutual funds (which provided legal grounds for capital market operations carried out by brokerage houses, stock exchanges, mutual funds as well as the Securities Commission as a regulator and promotor of the stock market), on 12 April 1991, the Minister of Ownership Transformations and the Minister of Finance (representing the State Treasury) signed a founding act for establishing the Warsaw Stock Exchange.

Currently, the Warsaw Stock Exchange is the largest stock exchange in CEE countries in one of Europe’s most rapidly developing capital markets. The WSE trades in shares issued by 450 companies, out of which more than 400 are Polish entities. The total capitalisation of the WSE amounts to approx. PLN 830bn (*Giełda Papierów Wartościowych w Warszawie 2014*), which is around EUR 200bn.

One of the significant areas related to the activities of listed companies is corporate governance**.** The first Polish corporate principles were set forth by the Best Practice Committee, composed of the representatives of capital market institutions, in the document "Good Practice in Public Companies 2002", replaced by the amended document "Good Practice 2005" (*Ład Korporacyjny. Główny Rynek GPW*, 2014).
At the end of 2006, work started on developing a new document on good practice principles. A draft document on The Best Practices of WSE Listed Companies was adopted by the Stock Exchange in July 2007. In 2011, the document was amended.
The objective of The Best Practices of WSE Listed Companies is to enhance the transparency of listed companies, improve communication between companies and investors, protect shareholder rights (also those not regulated by law) and prevent any obstacles for listed companies not compensated for by benefits resulting from the needs of the market.

The new code of best practice starts with a preamble which explains the significance of corporate governance in developing the stock exchange market and describes the principles for creating and applying best practice rules. The document comprises four sections:

I. Recommendations related to best practice for listed companies,
II. Best practice applied by management boards of listed companies,
III. Best practice applied by members of supervisory boards,
IV. Best practice applied by shareholders.

Also, attention should be given to the institutional structure of Polish accounting. The major organizations composed of accounting professionals include the Accounting Standards Committee, the Accountants Association in Poland, and the National Chamber of Statutory Auditors.

The Accounting Standards Committee has carried out its activities within the Ministry of Finance since 2002 (*Komitet Standardów Rachunkowości*, 2014). It issues National Accounting Standards – they are recommendations which are not legally binding. Up to now, 7 standards have been issued, and the subsequent ones are being developed. The Committee's members are the experts in accounting who represent accounting regulatory bodies (the Ministry of Finance, the Ministry of State Treasury, the National Bank of Poland, and the Banking Supervision Commission), the major professional organizations (Accountants Association in Poland and the National Chamber of Statutory Auditors) as well as academics and the representative of auditing companies.

Up to now, the Committee has issued 7 National Accounting Standards: cash flow statement; income tax; uncompleted construction services; asset impairment; leasing and tenancy; provisions, accrued liabilities and conditional liabilities; changes to accounting policies, estimated values, error rectification, events following the balance sheet date – presentation of data; developer activities. KSR 8 is in preparation: report on activities.

The Accountants Association in Poland, operating since 1907, is Poland's largest organization composed of accounting and financial experts (*Stowarzyszenie Księgowych w Polsce, 2014).* The members of the Association are engaged in accounting and related areas, and their objective is to gain knowledge and skills enabling them to perform their tasks in compliance with legal regulations, professional standards, best practices and ethical principles for the benefit of public interest.

The National Chamber of Statutory Auditors is an appointed self-government of statutory auditors (*Krajowa Izba Biegłych Rewidentów, 2014*). It was set up pursuant to the Act of 19 October 1991 *on the examination and announcement of financial statements, statutory auditors and their self-government*, which entered into force on 1 January 1992. The major tasks performed by the National Chamber of Statutory Auditors include setting financial auditing standards and cooperating in developing accounting and financial auditing rules.

Table 1. Summary of the main changes within the accounting model in Poland from the systemic transformation until 2014

Characteristics of accounting model	1989-2000	2001-2010	2011-2014
General evolution of accounting	1994 Act on accounting	2002 – major amendments enter into force Since 2006 - IFRS	Adaptation of legal regulations to directives and IFRS
The main users	Banks Investors	Banks Investors	Banks Investors
The relationship with taxation	Separate 1995 – introduction of deferred tax	Separate	Separate
Development of stock market	1991 – establishment of the WSE Capitalisation: PLN 161m Number of listed companies in 2000: 225	Further development Number of listed companies in 2010: 400	Capitalisation: PLN 830bn (EUR 200bn) Number of listed companies in 2014: 451
Developments in corporate governance	n/a	“Best Practices in Publicly Traded Companies 2002” “Best Practices 2005” ”Best Practices 2007” “Best Practices 2010”	“Best Practices 2012”
institutional organization of accounting	Since 1991 – National Chamber of Statutory Auditors	Since 2002 – Accounting Standards Committee	

Source: authors’ own research

3. IFRS implementation in Poland and its expected benefits

The following stages can be identified in Polish accounting regulations in the period of the last 25 years:

- stage I – the ruling of the Minister of Finance of 15 January 1991 on accounting principles (1991-1994);

- stage II – the Act on accounting passed on 29 September 1994; it entered into force on 1 January 1995 and was binding until the end of December 2001;
- stage III – from 1 January 2002, when amendments to the Act on accounting of 9 November 2000 entered into force, until the end of 2004 – this stage can be referred to as the process of the convergence of Polish accounting regulations to IAS/IFRS;
- stage IV – since 1 January 2005, when the Act of 27 August 2005 entered into force, allowing selected entities to apply IFRS/IAS, which can be regarded as a stage of limited IAS/IFRS adoption.

The Act on accounting, providing legal grounds for financial accounting in Poland, was amended in 2001, which resulted in incorporating a number of IAS solutions into the Polish legal system. They were related to the basic terms such as assets, liabilities, equity, revenues and costs, for which the adopted definitions were equivalent to IAS terminology. It also referred among others to fair value valuation.

The Polish Act on accounting is a relatively brief and transparent legal regulation – its length is merely 80 pages. IAS/IFRS documents are much longer, and it is true that the Polish regulations do not give due attention to a number of accounting areas. On the other hand, the briefness of the Act is appreciated by most users of financial statements, especially SMEs and businesses whose economic activities are not complex.

The above mentioned National Accounting Standards supplement the Act on accounting. Generally, a flexible system has been developed for adopting accounting legal regulations in response to the needs of economic life. The National Accounting Standards can be viewed as the Polish variant of international standards adjusted to Polish economic realities. The Polish standards are basically compatible with their international counterparts. In some thematic areas they apply more specific solutions – stricter standards are applied in the area of disclosure obligations. The Polish standards are regularly updated in accordance with new international requirements. In this context, the harmonisation of Polish accounting regulations with IFRS can be regarded as a convergence strategy. It is confirmed by the fact that Polish accounting terminology corresponds to, or is very similar to IFRS. Importantly, in the last decade university syllabuses as well as trainings offered by the organizations of certified accountants and auditors have given much attention (in terms of the number of classes) to issues related to IFRS regulations. Therefore, Polish accountants and auditors are familiar with such IFRS concepts as valuation at fair value, amortized cost valuation, receivables and payables discounting, impairment testing etc.

Pursuant to Ruling of the European Parliament and the Council No. 1606/2002, in Poland as well as in other EU member states, large companies, especially listed companies, banks and insurance companies, have been obliged to apply IAS/IFRS in their consolidated financial statements for the accounting year starting on 1 January 2005, or after that date. This approach, resulting from Poland's membership in the EU, should be regarded as the IAS/IFRS adoption strategy for selected business entities.

From the perspective of IFRS application, Polish entities can be divided into three groups (Figure 1):

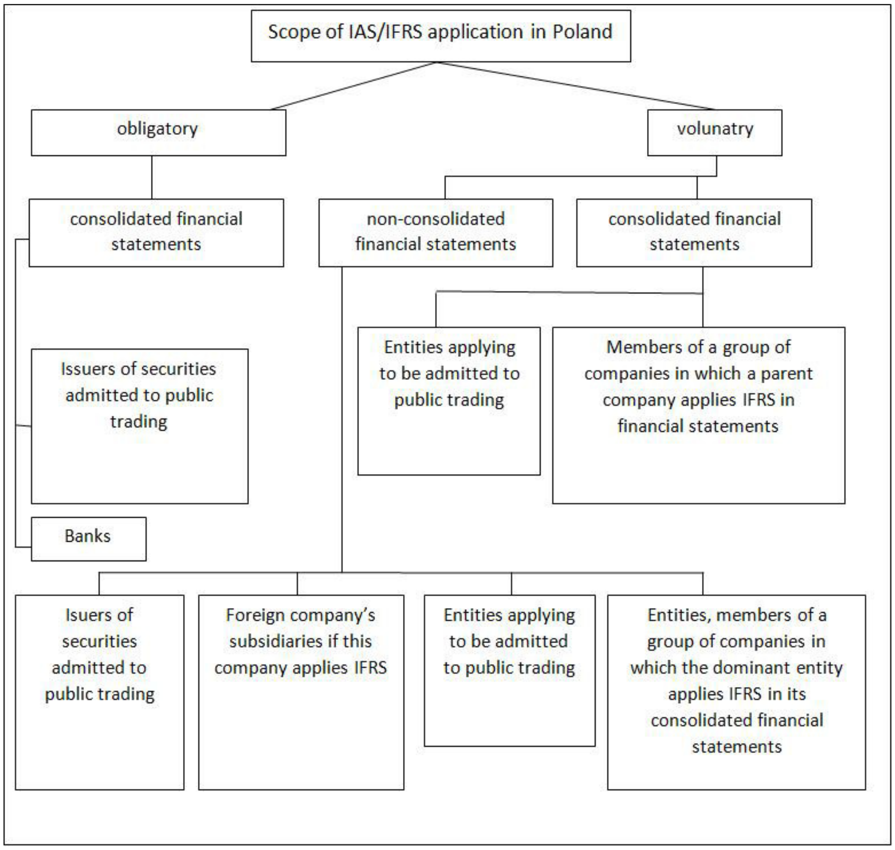

Figure 1. The scope of IAS/IFRS application in Polish financial reporting

Source: the authors' own research based on A. Helin, "Sprawozdanie finansowe według MSSF. Zasady sporządzania i prezentacji" (financial statements according to IFRS, preparation and presentation principles) C.H.Beck, Warszawa, 2006: 24, and the of 29 September 1994, Journal of Laws of 2013, points 330 and 613.

- the largest entities, so called entities of public interest, which are obliged to apply IAS/IFRS in their consolidated financial statements, and which may apply international standards in non-consolidated statements;
- entities which aspire to count themselves among the largest companies, or entities constituting their capital structure, and the subsidiaries of foreign companies which may choose to voluntarily apply IFRS in their financial statements. Therefore, if an entity chooses this possibility, it is not required to produce a second set of financial statements based on national regulations;
- the remaining entities which apply the Act on accounting and in matters not regulated by the Act apply National Accounting Standards, and if this is not sufficient, these entities may refer to IAS/IFRS.

In Poland taxation system is separate from financial accounting. Usually the chart of accounts is prepared in such a way that income tax can be calculated independently. As a result, financial net income in Poland cannot serve as a starting point for taxation irrespective of whether the financial statement is prepared under IFRS or local GAAP.

The convergence strategy leads to a continuous increase in the quality of Polish accounting regulations. This quality, however, or the quality perceived by the market, is certainly inferior to IAS/IFRS standards. In the case of a number of smaller and medium-sized entities, in which the comparability of financial statements is not as significant as in the case of listed companies, the quality of financial statements meets the requirements of their main users. Smaller companies attribute greater significance to the costs of accounting and the auditing of financial statements, which are considerably higher in the case of IFRS application.

The potential benefits derived from IFRS implementation can be mainly attributed to the application of higher quality accounting standards. It leads to a higher quality of reported financial results and, in particular, it increases their comparability with the financial statements of the foreign entities which apply IFRS. It should increase the attractiveness of Polish listed companies as investment targets for foreign investors, increase the liquidity of their shares and, consequently, reduce the cost of capital. The higher quality of financial statements should also translate to lower risk levels, which is discussed in the further part of the paper.

As regards the banking sector, IFRS implementation has increased investors' confidence in Polish banks. After 2005, the banking sector recorded increased activities in trans-border mergers and acquisitions as well as higher ratings of Polish banks. However, this process is also affected by other factors including Poland's accession to the EU and a good condition of the Polish economy as compared with other European countries. Unfortunately, the authors are not able to refer to any research studies related to IFRS implementation in the Polish banking industry.

In the case of entities applying for admission to public trading (planning to file for IPO) the voluntary implementation of IFRS can be viewed in the context of their reliability assessed by potential investors (especially foreign investors).

Table 2. Potential benefits of IFRS implementation in Poland

Period	**2002-2004**	**2005-2013**	
Manner of IFRS implementation	**convergence (Polish Accounting Regulations)**		**adoption (IFRS)**
Mandatory IFRS implementation in consolidated reporting			
Issuers of securities admitted to public trading	A relatively easier transfer to IAS/IFRS	A relatively easier transfer to IAS/IRFS in non-consolidated financial statements	Higher quality of financial statements, lower costs of capital, lower level of earnings' management
Banks	Entity's preparations for transfer to IAS/IFRS	N/A (Polish banks are obliged to apply IFRS)	Potentially higher ratings for Polish banks and Polish banks' increased activities in mergers and acquisitions
Voluntary IFRS implementation			
Members of the group of companies in which the dominant entity prepares IFRS consolidated financial statements	Lower costs of consolidating financial statements and easier comparison of an entity's results with other members of the group of companies, especially in the case of the voluntary application of IFRS		
Entities applying to be admitted to public trading	Lower accounting costs as compared with IFRS		Entities adopting IFRS have a more positive market image
A foreign company's subsidiary, if this company applies IFRS	Greater comparability of an entity's results with those of the dominant entity which applies IFRS		Reduced costs of accounting if an entity was obliged to implement IFRS and Polish regulations
Other entities	Higher quality of financial statements		N/A

In the case of the groups of companies, the voluntary implementation of non-consolidated statements leads to substantial savings in consolidating financial statements. Also, savings can result from the voluntary implementation of IFRS by the subsidiaries of the foreign companies which apply IFRS. Table 2 presents the potential benefits derived by Polish companies from the convergence strategy (which implies that companies apply Polish accounting standards), and the benefits resulting from the adoption strategy (it concerns the entities which decide to implement IFRS). Some of the above mentioned benefits are the subject of empirical studies presented in the further parts of the paper.

Except for large and medium companies there is also a significant SMEs' sector, which is very important for Polish economy. It accounts for more than 50% of GDP and almost 70% of employment in Poland. The introduction of the IFRS for SMEs will be an important step towards the harmonization of accounting in this sector (Engstrom, 2010; Zarzecka, 2010: 1-13). The objectives of the standard can be assessed positively, as confirmed by numerous empirical studies in this field. The standard in the opinion of many interested parties can, however, be considered as expensive and complex (Kędzior, 2010: 111-139; Kędzior, 2011: 29-33).

According to Nowak (2009 , p 2-9) IFRS for SMEs will improve confidence in the accounting in this sector, they will increase the comparability of financial statements internationally and facilitate capital raising locally and internationally. It is particularly useful for companies conducting their business internationally. They may be of interest to global financial institutions (Zarzecka, 2010: 1-13). According to Martyniuk (2008: 135-145) currently in Poland, accounting for SME can be described as a low-quality system, which does not provide unified financial information. The sector is characterized by a high risk of financial problems and difficulties in obtaining bank loans. The introduction of high-quality accounting standards such as IFRS for SMEs is therefore advisable.

IFRS for SMEs may raise legitimate concerns and doubts. Despite the simplifications in the number of pages and disclosures in relation to the full version of IFRS it is likely to be too difficult for this sector. Gabrusewicz (2008: 41-48) conducted empirical research in this field. Entrepreneurs believe that the introduction of the standard will hamper activities of economic entities. Many definitions were considered theoretical and not for practical use. However it is worth noting, that the financial reporting of small and medium-sized units cannot be over-simplified if it is to present faithfully and comprehensively current and future business activities of economic entities (Gos *et al.*, 2008: 49-60). Applications of fair value and fair value audit to this sector is questionable. Moreover, it seems that the transfer of information to such a wide range of users is not supported in economic practice (Cole *et al.*, 2010).

The above drawbacks cannot change the overall positive opinion on this standard. The question to be asked is, when implementation of the IFRS for SMEs would be possible, rather than whether it should be introduced. The attitude of the European Commission can be crucial in the whole process. It can strengthen the global position of the IFRS for SMEs in the sector. The standard can be adopted at EU level and apply to all EU countries, or its adoption could depend on the Member States. In Poland, the use of IFRS for SMEs will only be possible after the relevant statutory solutions have been implemented (Czaja-Cieszyn, 2011: 57-65).

Benefits derived from IFRS implementation in Poland vary depending on an entity's size and its financial structures as well as the sources of foreign investment. Overall, large companies are likely to benefit most from high quality financial statements resulting in lower capital costs. Also, IFRS implementation involves higher accounting costs and the necessity of trainings for financial and accounting staff, leading to the higher costs of financial statement auditing. The impact of IFRS implementation in Poland is the subject of a number of research studies, many of which giving attention to cost-benefit analysis.

4. The consequences of IFRS implementation

Polish literatures present many research studies concerning IFRS. The authors believe that they can be divided into the following groups:

- the analyses of the comparability of selected financial items according to Polish regulations and IFRS,
- the impact of IFRS implementation on financial ratios,
- the effectiveness of and response of capital markets to IFRS implementation,
- the detailed analyses of selected accounting areas before and after IFRS implementation.

Within the framework of the first area of subjects Grabiński and Kędzior (2007b: 7-21) analysed the level of correlation between the Polish Act on accounting and IFRS. The authors examined **the balance sheets** of 30 largest listed companies in terms of their stock exchange capitalisation. The analysed balance sheets were prepared in 2004 according to Polish regulations as well as IFRS. When Polish companies implemented IFRS, a number of analysts expressed concerns about the effects of the process. The balance sheets based on IFRS reflected an evolution rather than a revolution of Polish accounting. For most balance sheet items differences did not exceed 2.5%, which is also true of items presented in Table 3. The most significant groups of assets and liabilities including fixed assets, current assets, equity and accounts payable recorded differences up to 5%. In fixed assets the major differences related to the value of subordinate entities, long-term receivables and long-term accruals. Current assets recorded a higher level of comparability with the exception of accruals. Differences in accounts payable and provisions were also at the level of 2%. The greatest differences related to long-term liabilities (Table 3). In equity the major difference (for obvious reasons) was recorded in proceeds from revaluation. The results of the study are not surprising – in many unregulated matters Polish accounting regulations recommend the application of IFRS (see Vellam, 2004). The authors believe that IFRS implementation will increase the comparability of financial statements; moreover, preparing financial statements for international capital groups is easier and less expensive, reducing the costs of auditing and trainings for auditing companies, increasing the flow of capital to the Polish top-20 corporations as well as mitigating the risk of investing on the Polish stock market as a result of differences in accounting rules.

Table 3. Differences in balance sheet items resulting from Polish accounting rules and IFRS - 30 Polish largest listed companies in 2005

I. Fixed assets	**0.9395**
1. Intangible assets	7.36%
2. Value of subordinate entities	-5.24%
3. Tangible fixed assets	2.25%
4. Long-term receivables	3.83%
5. Long-term investments	-0.18%
6. Long-term accruals	-1.96%
II. Current assets	**1.0117**
1. Inventories	-0.74%
2. Short-term receivables	0.18%
3. Short-term investments	2.09%
4. Short-term accruals	2.69%
IV. Liabilities and contingent liabilities	**1.0178**
1. Contingent liabilities	0.74%
2. Long-term liabilities	1.21%
3. Short-term liabilities	1.95%
4. Accruals	-5.68%

Source: K. Grabiński, M. Kędzior, *An Empirical Evidence on Convergence of Polish Accounting Rules and International Financial Reporting Standards on the Basis of Polish PLC Listed on the Warsaw Stock Exchange,* 30th Annual Congress, European Accounting Association, Lisbon 2007.

Krzywda and Schroeder (2007) analysed the range of differences between Polish accounting rules and IFRS. The analysed entities were Polish companies at the end of 2001, 2003 and 2004. The results indicated that **equity values** were lower according to Polish accounting rules by 6%-9%. Net profits were also lower, reaching the level of 35%. The above differences are due to different accounting practices in the area of consolidating business entities, especially with regard to previously capitalised and depreciated positive and negative goodwill on consolidation.

Similar studies were conducted by Jaruga *et al.* (2007) on the basis of the annual reports of 255 publicly traded companies. The authors analysed the impact of the first application of IFRS on financial reporting, focusing on **financial result and equity values.** Most companies which implemented IFRS recorded higher equity values, with many of them recording differences within the range of +-10%. It should be noted that a large number of entities recorded differences above +-20%. Similar results were recorded for net profits. Most companies recorded financial results at a higher level after transition to IFRS. However, the differences were not as large as in the case of equity values. It should be noted that equity values were higher for the majority of companies after their transition to IFRS (attention should be given to a large number of companies recording lower financial results based on IFRS). The two items were characterised by substantial differences as compared with other items after IFRS implementation. The authors stressed a positive impact of the harmonisation of accounting standards and its benefits for Polish entrepreneurs: greater comparability of financial information for investors; greater willingness on the part of investors to invest across borders; lower cost of capital; more efficient allocation of resources and higher economic growth.

Fijałkowska and Jaruga-Baranowska (2007) conducted a comparative analysis of 80 companies from the point of view of **the most significant balance sheet items after IFRS implementation and according to Polish accounting rules**. An increase in the balance sheet total was recorded for 51 entities, while 21 companies were characterised by a decrease in this value. Equity values increased in 78 companies (in many cases considerable differences), while 21 entities recorded decreased values. The number of companies in the particular analyses varied due to the lack of available data. Increased financial results were recorded for 50 business entities, while 30 companies reported decreased values. It can indicate a more conservative approach of Polish accounting standards as compared with IFRS. The empirical research of Polish listed companies leads to the conclusion that balance sheet differences are greater than those presented in profit and loss accounts (Fijałkowska; Jaruga-Baranowska, 2007). According to the authors, the reported equity values based on IFRS are more reliable in terms of reflecting their market value. The paper stresses greater comparability and transparency of IFRS-based financial statements.

Borowski and Kariozen (2007) analysed a direct and indirect impact of IFRS implementation on the financial reporting of companies listed on the Warsaw Stock Exchange. The analysis comprised 12 companies and focused on the accounting of **hedging and the reporting of capital groups.** According to the authors, transition to IFRS led to a change in equity by 13.85%, while the companies' financial result decreased by 2.27%. Changes resulting from the consolidation of financial statements had a slight impact on equity values, reaching the level of 0.74%. Changes to the financial result reported by 12 companies were at the level of 1.84%. Attention should be given to the improved quality of disclosures concerning the accounting of hedging in 2004–2005. They were positively assessed according to the scale: 0 – no disclosures, up to 3 – full disclosures in compliance with the requirements. The average ratio in 2004 was 1.97, and in 2005 – 2.43. The authors stressed the higher quality and range of disclosed accounting information in IFRS-based statements.

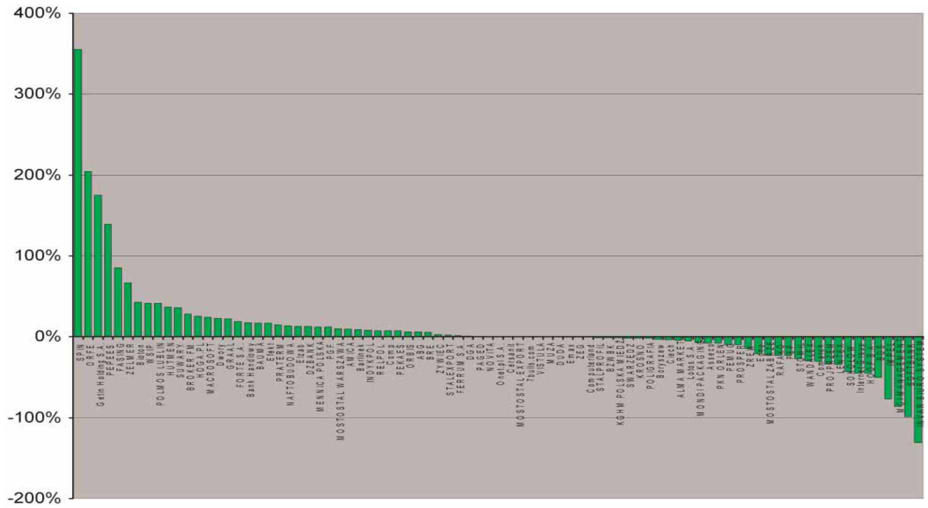

Figure 2. Percentage changes of net income for 2004 as a result of transition to IFRS for Polish public companies

Source: Jaruga et al., 2007: 67-78

A more detailed analysis for the second group of companies was conducted by Grabiński & Kędzior (2007c). The analysed entities were 30 Polish largest listed companies in terms of market capitalisation. The analysis focused on changes in selected financial areas related to **liquidity and profitability**. The authors analysed the following indicators: return on equity, general profitability and quick ratios before and after IFRS implementation. The analysed sample recorded significant statistical differences between indicators based on Polish accounting rules and IFRS, but the differences were not considerable in terms of their absolute values. The greatest differences were recorded for current liquidity and quick ratios. It can be justified by a high level of compatibility of Polish rules and IAS, especially the items which served as a basis for calculating selected ratios. The compatibility of particular balance sheet items was determined on the basis of Gray's index. Therefore, it is advisable to conduct ratio analysis based on local standards and IFRS in the period of transition to international standards. The authors stressed the higher quality and comparability of IFRS-based financial statements as well as the lower risk of accounting analyses and companies' improved image.

Adamik-Citak (2011) analysed the impact of transition to IFRS on the financial standing of listed companies. Special attention was given to **liquidity, the cash conversion cycle, indebtedness and profitability ratios.** The author stressed that the results of the analysis of IFRS-based financial statements were determined by their quality. Empirical research confirmed the worsened financial standing of companies according to IFRS-based ratio analysis. It is due to a more rigorous manner of presenting long-term liabilities and the inclusion in costs of programmes of incentives for executive staff. The paper also stressed the mandatory disclosure of credit risk, liquidity, exchange and market risk as well as interest rate risk in IFRS-based statements.

Kędzior (2012) examined the major determinants of capital structure in production listed companies from the following EU member states: Finland, France, Greece, Spain, the Netherlands, Germany, the UK, Romania, Italy, Lithuania, Latvia, Poland and Slovakia. The analysis focused on the **impact of IFRS on the indebtedness** of EU production companies. The sample comprised 1,063 companies. No impact of IFRS was recorded on the total and long-term indebtedness of East European companies, while this correlation was confirmed for EU old member states. It can be attributed to the fact that many CEE countries introduced new accounting solutions in the early 1990s (see Jaruga, 1993; Jaruga *et al.*, 1996; Krzywda *et al.*, 1995). These solutions often followed IFRS recommendations, which resulted in slight changes in local and IFRS regulations. The authors stressed a slight impact of IFRS on debt ratios, while greater significance was attributed to ROA, growth opportunities, tangible fixed assets, company size, industry, inflation rate, taxation, economic growth, legal systems and the development of capital markets and the banking sector. IFRS-based financial statements increase comparability and provide easier access to capital.

Within the framework of the third area of analyses concerning IFRS implementation and its consequences, Klimczak (2011) examined **the response of capital markets to the mandatory application of IFRS by Polish listed companies.** The author believes that this impact is slight. The usefulness of accounting data should be viewed in a broader context. Apart from the quality of accounting, other factors play a significant role: the effectiveness of capital markets (in Poland), easy access to information and its effective processing. A significant role is also played by market institutions which determine the quantity and quality of accounting information for various users. It seems that in the context of IFRS implementation more attention should be given to a given country's institutional structures. The author believes that IFRS-based statements deserve a positive evaluation for their high level of transparency, quality and comparability of financial reporting as well as the efficient and cost-effective functioning of the capital market.

The development of accounting in the context of capital markets was analysed by (Dobija & Klimczak, 2010). They focused on **the effectiveness of Polish capital markets and the value relevance of earnings**. Both phenomena were positively assessed in the context of Polish listed companies which applied IFRS in their financial reporting. The authors did not record any major changes after the introduction of new accounting rules after 2000 and after 2005, resulting from the mandatory application of IFRS in publicly traded companies. The authors stress that the effectiveness of capital markets, similarly to value relevance of earnings, was achieved in earlier periods. The foundations of a free market economy laid in the 1990s turned out to be strong and later amendments to the Act on accounting and IFRS implementation did not have a major impact on value relevance.

Waniak-Michalak *et al.* (2012) analysed the impact of the mandatory **IFRS implementation on the quality of profits**. The analysed entities were companies listed on the Warsaw Stock Exchange, excluding financial institutions, preparing consolidated financial statements. Quality was measured on the basis of the commonly applied criteria: *earnings persistence* and *accruals magnitude.* The authors determined the quality of profits before and after IFRS implementation. The study confirmed a slight, but statistically significant impact of IFRS on the quality of profits after 2005.

Other, more detailed analyses, include the ones conducted by Szychta and De La Rosa (2012), who did a comparative analysis of reporting practices in the area of **the presentation of comprehensive income** in consolidated financial statements. The analysed entities included 24 largest listed companies in Poland. The majority of companies listed on the Warsaw Stock Exchange met new reporting requirements, especially IAS1. Most of the analysed companies report a separate income statement and a separate statement of comprehensive income (75%). Some other entities prepare separate statements of comprehensive income. The values of other comprehensive income in some of the analysed entities represented substantial amounts as compared with net profit values. Most companies recorded a positive value of other comprehensive income, increasing total comprehensive income in relation to net profit. The new form of presenting financial information based on IFRS increases the prediction of net profit (loss) in future periods.

Piosik *et al.*, (2013) examined the factors that have an impact on the positive value of **revaluation of fixed assets** in the entities which implemented IFRS for the first time. The sample comprised 82 companies listed on the Warsaw Stock Exchange, and the analysis was carried out in 2000–2010. The analysed factors were divided into three groups: the possibility of upward revaluation, financial measures and management and reporting aspects. The two first groups are positively correlated with upward revaluation, but financial results are also negatively correlated with its size. The authors did not record any impact of management and reporting factors on the size and occurrence of upward revaluation of fixed assets. The scale of revaluation depends on the volume of long-term tangible fixed assets and is negatively correlated with changes to financial results one year prior to revaluation (change in profits divided by the value of assets) and positively correlated (change in profits divided by the value of assets) three years prior to revaluation.

Dyląg (2007) analysed the presentation of revenues and costs in the **IT sector** according to Polish accounting rules, IAS/IFRS and US GAAP. The study confirmed the lack of major differences between Polish accounting regulations and IAS/IFRS. Surprisingly, no such differences were recorded between US GAAP and Polish accounting rules. It should be noted, however, that US GAAP are more precise. They take into account differences among particular business sectors. Also, they give more attention to the interpretation of particular economic events.

Tobór-Osadnik *et al.* (2013) analysed the impact of personal features on the effectiveness of the work of accountants in the context of IFRS implementation. The study was based on a questionnaire which comprised only Polish companies. The authors stressed the impact of personal qualities on the performance of financial and non-financial staff. Special attention was given to a personality referred to as ***homo sovieticus***. This term refers to people who do not accept new challenges, do not have the ability of critical thinking, expect authorities to take care of citizens' lives, do not have entrepreneurial skills, etc. The questionnaire confirmed that among Polish accountants (157 analysed people) ¼ of them are characterised by the above presented attitudes, most of them females. A high percentage of accountants show great interpersonal skills and communication skills, which is of key significance in IFRS complex implementation processes. The authors conclude that people with fewer *homo sovieticus* characteristics are more inclined to apply IFRS.

5. Conclusions

The paper presents the conditions of IFRS implementation in Poland. To present an overall picture of the process, the authors describe the characteristics of the Polish accounting system. The history of Polish accounting was marked by the partitions of the country and wars, which resulted in implementing accounting solutions applied in the countries which occupied Poland's territory. After World War II, Polish accounting had to meet the requirements of a centrally planned economy. This period ended in Poland in the year 1989, which marked the beginning of the political and economic transformation. Over the recent years, changes in Polish accounting have been affected by the country's efforts to join the EU, leading to Poland's accession in 2004 and IFRS implementation, parallel to Polish accounting rules implemented in 2006.

The economic transformation affected a number of issues related to accounting including the relations between tax and accounting laws (currently two separate systems), the establishment of the Warsaw Stock Exchange and the National Chamber of Statutory Auditors.

From the perspective of listed companies, IFRS implementation increases the international comparability of financial statements, stimulates the inflow of international capital to Polish listed companies, reduces the costs of capital, increases the reliability, usefulness and transparency of financial reporting, increases the quality and scope of authority, mitigates accounting risks, improves companies' image and increases confidence in their activities as well as improves the quality of profits. On the other hand, the implementation of new standards is a long and labour-intensive process, especially for smaller companies. Overall, Polish accounting rules are highly compatible with IFRS despite a number of specific differences. Transition to IFRS did not result in major changes to companies' financial standing measured by financial ratios. IFRS are more precise as compared with Polish rules. IFRS are mainly applied by listed companies and rarely used by other business entities.

Finally it must be clearly stated that IFRS has strongly influenced national regulations and practice in Poland. As Larson and Street expected (2004: 104) IFRS is a key benchmark used by the Polish legislature when preparing accounting regulations. The majority of amendments to accounting law are driven by changed or recently introduced IFRS. Accounting education, training and literature also focus on IFRS issues.

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[1] Income taxes paid by legal persons are regulated by the Act of 15 February 1992, Journal of Laws of 2011, No. 74, point 397 with later amendments.

Appendix 1. Summary of most relevant research papers related to IFRS implementation in Poland

Paper	Period of the study	Main results	Costs and benefits	Level of compliance	Factors affecting the level of compliance	Transparency	Value relevance
The analyses of the comparability of selected financial items according to Polish regulations and IFRS							
Grabiński and Kędzior (2007)	2004, 2005	There are not any significant differences between PAR and IAS; some gaps do exist but they do not concern the most important balance sheet items. They have a slight impact on the balance sheet total. On the basis of three presented methods (balance sheet structure, S. J. Gray's method, linear regression), the highest level of convergence was achieved for the following: tangible fixed assets, inventories, short-term receivables, long-term liabilities, and the lowest convergence was recorded for intangible assets, goodwill from consolidation – subsidiaries, long-term receivables, long-term deferred charges and accruals.	Comparability of financial statements, easier and less expensive preparation of financial statements for international capital groups, reduced costs of auditing, an increase in the flow of capital to the Polish top-20 corporations, the risk of investing on the Polish stock market because of differences in accounting rules is mitigated.	high	Dominant users of financial statements, corporate governance system	Not specified	Not specified
Krzywda and Schroeder (2007)	2001, 2003, 2004	The results indicated that equity values were lower according to Polish accounting rules by 6%-9%. Net profits were also lower, reaching the level of 35%. The above differences are due to different accounting practices in the area of consolidating business entities.	Not presented.	average	Big 4 auditor, company size, industry	Not specified	Greater according to IFRS

The analyses of the comparability of selected financial items according to Polish regulations and IFRS							
Jaruga *et al.* (2007)	2004	Most companies which implemented IFRS recorded higher equity values, with many of them recording differences within the range of +-10%. It should be noted that a large number of entities recorded differences above +-20%. Similar results were recorded for net profits.	Greater comparability of financial information for investors; greater willingness on the part of investors to invest across borders; lower cost of capital; more efficient allocation of resources; and higher economic growth.	average	Cultural and social aspects, economic and institutional infrastructure	Not specified	Greater according to IFRS
Fijałkowskaa nd Jaruga-Baranowska (2007)	2004	After IFRS implementation increased financial results were recorded for 50 business entities, while 30 companies reported decreased values. It can indicate a more conservative approach of Polish accounting standards as compared with IFRS. The empirical research of Polish listed companies leads to the conclusion that balance sheet differences are greater than those presented in profit and loss accounts.	Reliability, usability, transparency comparability of financial statements better information for the operational and financial risk assessment, accounting harmonization in the EU; standards difficult and time-consuming.	average	The scale of the activity of a company	Greater according to IFRS	Greater according to IFRS
Borowski and Kariozen (2007)	2004 – 2005	According to the authors, transition to IFRS led to a change in equity by 13.85%, while the companies' financial result decreased by 2.27%. Changes resulting from the consolidation of financial statements had a slight impact on equity values, reaching the level of 0.74%. Changes to the financial result reported by	Increased quality and scope of the disclosure of accounting information.	high	Big 4 auditor	Greater according to IFRS	Not specified

		12 companies were at the level of 1.84%.					
The impact of IFRS implementation on financial ratios							
Grabiński and Kędzior (2007)	2004	The analyzed sample recorded significant statistical differences between ratios based on Polish accounting rules and IFRS, but the differences were not considerable in terms of their absolute values. The greatest differences were recorded for current liquidity and quick ratios.	Higher quality, comparability of financial statements, reduced the risk of accounting analysis, improving image and confidence for a company, significant costs of implementing IFRS.	high	Harmonization of accounting processes undertaken locally, national social, economic, legal factors	Not specified	Not specified
Adamik-Citak (2011)	2008	Special attention was given to liquidity, the cash conversion cycle, indebtedness and profitability ratios. Empirical research confirmed the worsened financial standing of companies according to IFRS-based ratio analysis.	The quality of financial statements, wider disclosure, broader information about credit risk, liquidity risk, foreign exchange, market risk, interest rate.	average	Financial statements from the point of view of the investor, or the traditional shape	Greater according to IFRS	Greater according to IFRS
Kędzior (2012)	2000-2007	No impact of IFRS was recorded on the total and long-term indebtedness of East European companies, while this correlation was confirmed for EU old member states. It can be attributed to the fact that many CEE countries introduced new accounting solutions in the early 1990s.	Comparability of financial statements, better access to capital.	average	The processes of harmonization of accounting standards adopted at European Union level	Not specified	Not specified
The effectiveness of and response of capital markets to IFRS implementation							
Klimczak (2011)	2004	The author believes that market reaction for IFRS implementation is slight. The	High level of transparency, quality	average	The effectiveness of capital markets,	Greater according to IFRS	Higher before IFRS

		usefulness of accounting data should be viewed in a broader context. Apart from the quality of accounting, other factors play a significant role: the effectiveness of capital markets (in Poland), easy access to information and its effective processing.	and comparability of financial reporting, efficient and cost-effective functioning of the capital market.		easy access to information and its effective processing		adoption
Dobija and Klimczak (2010)	1997-2008	Authors focused on the effectiveness of Polish capital markets and the value relevance of earnings. Both phenomena were positively assessed in the context of Polish listed companies which applied IFRS in their financial reporting. The authors did not record any major changes after the introduction of new accounting rules after 2000 and after 2005, resulting from the mandatory application of IFRS in publicly traded companies.	High level of transparency, quality and comparability of financial reporting, efficient and cost-effective functioning of the capital market.	high	Free-market economic reforms, the development of stock exchanges, accounting rules converge with IFRS, strong and modern accounting organizations, well-functioning system of corporate governance	Similar according to Polish rules and IFRS	Similar according to Polish rules and IFRS
Waniak-Michalak *et al.* (2012)	1999-2010	The authors analyzed the impact of the mandatory IFRS implementation on the quality of profits. Quality was measured on the basis of the commonly applied criteria: *earnings persistence* and *accruals magnitude*. The study confirmed a slight, but statistically significant impact of IFRS on the quality of profits after 2005.	Higher earnings quality, earnings persistence.	average	The change of the Polish Accounting Act in 2001, mandatory nature of the IFRS implementation, economic conditions, industry	Not specified	Slightly larger in IFRS
The detailed analyses of selected accounting areas before and after IFRS implementation							

Piosik *et al.* (2013)	2000 – 2010	The scale of revaluation depends on the volume of long-term tangible fixed assets and is negatively correlated with changes to financial results one year prior to revaluation (change in profits divided by the value of assets) and positively correlated (change in profits divided by the value of assets) three years prior to revaluation.	Not specified	Not specified	possibility of upward revaluation, financial measures and management and reporting aspects	Not specified	Not specified
Szychta and de la Rosa (2012)	2009-2010	Structure of presenting other comprehensive income is not unified, OCI components are not accurately defined, presentations in notes are not transparent, IAS1 is too general, companies are not interested in greater transparency	Prediction of net profit (loss) in future periods	average	IAS1 is too general, companies are not interested in greater transparency	No transparency	Not specified
Dyląg (2007)	2005-2006	The study confirmed the lack of major differences between Polish accounting regulations and IAS/IFRS. No such differences were recorded between US GAAP and Polish accounting rules. It should be noted, however, that US GAAP are more precise.	Not specified	high	Not specified	Similar according to Polish rules and IFRS	Not specified

Source: authors' own research