Dr Edyta Łazarowicz
Dr Małgorzata Mierzejewska

Institute of Accounting
Collegium of Management and Finance
Warsaw School of Economics

BENEFITS AND COSTS OF IFRS IMPLEMENTATION IN POLAND – THE VIEW OF PREPARERS AND CONSULTANTS[1]

1. Introduction

Universal standards of financial reporting widely applied by listed companies help investors and other participants in the world's capital markets make economic decisions.

It is difficult to develop standards that would be flexible enough to be applied in diverse organisations and at the same time uniform. That is why the implementation of IFRS in companies is a time-consuming and costly process. Conceptions used in the standards largely originate from the so called Anglo-Saxon system of accounting where investors are the main stakeholders of financial statements and accounting adopts the "ex ante" perspective, which may additionally complicate implementation of new standards in conservative continental accounting.

The purpose of the research was to examine the opinions of preparers and consultants[2] on costs and benefits of IFRS implementation in Poland and to compare the obtained results to the findings of similar studies conducted in other

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[1] This paper is based on the research "*The benefits and costs of implementation of International Financial Reporting Standards in the Polish practice*" conducted in 2016 by Edyta Łazarowicz (Head of Research), Magdalena Giedroyć, Anna Karmańska, Katarzyna Klimczak, Małgorzata Mierzejewska, and Anna Wachowicz.

[2] The effects of IFRS implementation in Poland from the investors' and certified auditors' point of view are presented in the papers: K. Klimczak, A. Wachowicz, *Benefits and costs of IFRS implementation in Poland – the investors' perspective*; A. Karmańska, *Benefits and costs of IFRS implementation in the opinion of Polish certified auditors*, submitted to 8. International Scientific Conference *Financial Reporting and Auditing: Challenges and Opportunities for Accounting Researchers and Educators*, organised by Cracow University of Economics, Department of Financial Accounting and IAAER, September 26-27, 2017, Cracow, Poland.

countries. In international research on the effects of IFRS adoption in the EU, East European companies are often largely excluded from researchers' test samples. The effect of such sample bias is that firms from Eastern Europe are often under-represented (*The Effects of*…, 2015). Moreover, current IFRS implementation in Asian countries gives the opportunity to compare IFRS adoption experiences of companies from East European and Asian perspective.

The remainder of this paper is structured as follows: Section 2 contains literature review on the benefits and costs from the point of view of companies which implemented IFRS; Section 3 presents the research method; Section 4 reports findings from interviews; Section 5 discusses results and limitations of the research; and Section 6 concludes the paper.

2. Literature review on benefits and costs of IFRS implementation from the companies' point of view

Several studies which describe the implementation of IFRS in companies reveal costs and benefits of changing the reporting standard. It is crucial that benefits may apply to various entities: organisations which adopt IFRS, but also to investors, the state, the banking sector, and stock exchanges while costs fall mainly on companies which implement IFRS. To ensure proper comparison of costs and benefits, literature review has been restricted to just costs and benefits observed in organisations (companies) which implement IFRS. The review of selected literature shows that **lower cost of capital** is the most often mentioned benefit for companies, even though earlier, before the new standard has been implemented that benefit was not especially awaited (Jermakowicz, Gornik-Tomaszewski, 2006) or not expected at all (Fox et al., 2013). Reduced cost of raising capital is shown as closely related with transparency of financial reporting (*The Effects of Mandatory…*, 2015; Klimczak, 2011) and international comparability of financial statements (Fox et al., 2013; Kędzior, 2015; *The Effects of Mandatory…*, 2015), also with the **reduction of costs of ensuring international comparability of financial statements** (Fijałkowska, Jaruga-Baranowska, 2007), thanks to which companies get **easier access to international capital markets** (Morris et al., 2014). Another significant benefit to companies connected with the comparability of financial statements consists in **facilitated analysis of their own financial statements against the performance of their competitors** from the same industry (Kędzior, 2015). A lower cost of capital also results from the extended scope of disclosed information (Fox et al., 2013; Adamik-Citak, 2011) and its improved quality (Fijałkowska, Jaruga-Baranowska, 2007; *Exposure Draft (ED/2015/3)…*, 2015), which translates into reduced information risk of a company (Ignatowski, 2008). Some authors point to the impact of IFRS implementation upon accounting: renewed analysis of processes, information transfer in accounting and accounting policy may lead to **improved accounting practices** and better system of accounting (Jaruga et al., 2007; *Moving to IFRS…*, 2015) **improves the quality of information base for making business decisions** and, as a result, impacts management performance and maximises the benefits of ownership. It should be noted that the implementation of a common reporting standard for international groups is especially relevant as **putting in order the "language of accounting" within a group**[3] (Kliszczak, 2016) **improves communication** among individual companies (Fijałkowska, Jaruga-Baranowska, 2007) and, thereby, **speeds up the decision making process** (Ignatowski, 2008).

Costs and difficulties connected with IFRS implementation discussed in literature on the subject can be broken down into those which relate to technology, costs connected with internal human resources and external consultants, as well as those pertaining to the changed financial picture of a business. Technological costs are mainly **the costs of change** (Jaruga et al., 2007) including **the expansion** (*Evaluation of Regulation…*, 2015; Jermakowicz, Gornik-Tomaszewski, 2006; *The cost of IFRS…*, 2013) **of IT systems**. Human resources costs connected with IFRS implementation are significant because of the **engagement of employees** in the IFRS project not only from the Accounting Department but also from other departments in the organisation (Adamik-Citak, 2011; *Evaluation of Regulation…*, 2015; Jermakowicz, Gornik-Tomaszewski, 2006). Another impediment arises from **the changed approach of the employees of financial departments, general lack of the staff knowledge about IFRS** (Jermakowicz, Gornik-Tomaszewski, 2006; Skiba, 2013), and the need to organise **additional training for employees** (*The cost of IFRS…*, 2013; Fox et al., 2013; *Evaluation of Regulation…*, 2015) and managers. Additional obstacles come from the complexity of IFRS, lack of guidelines for IFRS implementation and its uniform interpretation, and continuous changes to IFRS (Kędzior, 2015). Some **additional staff may have to be hired** (*Evaluation of Regulation…*, 2015) and, as we can read in all studies and reports, the support from **external consultants** will surely be needed (*The cost of IFRS…*, 2013; Fox et al., 2013). We must also mention the so called hidden cost of staff, i.e., additional time and effort required by the implementation, for which the personnel will not be paid (Fox et al., 2013), e.g., maintaining parallel accounting systems and preparing comparable financial statements for previous years (Jermakowicz, Gornik-Tomaszewski, 2006).

[3] E.g. developing common accounting policy.

In the case of human resources (but also for changes in the overall picture of a company), authors list the need to make adjustments, enter them in the books of accounts and analyse their impact upon the financial result, changes in accounting principles, developing new accounting policy that would cater for additional information requirements (Fijałkowska, Jaruga-Baranowska, 2007).

The financial picture of a company also depends on increased volatility of earnings balance sheet items, a possible change of tax strategy following the adoption of IFRS (Jermakowicz, Gornik-Tomaszewski, 2006) and significant deterioration of liquidity and debt ratios (Kędzior, 2015).

The costs/benefits ratio clearly depends on individual characteristics of the company which adopts a new reporting standard. According to R.D. Morris et al. (2014, p. 163), the relevant factors for costs and benefits are: company size, auditor type, international orientation of the company; IFRS may also be perceived differently across industries.

3. Research method

In 2016 structured interviews were conducted with preparers of IFRS financial statement and with consultants who help companies implement IFRS. Due to considerable difficulties in finding people willing to be interviewed[4], the group of respondents is not a random sample. Information about the interviewees is presented in Table 1.

Table 1.

Basic information about the interviewees

	Interviewee 1 (I1)	**Interviewee 2 (I2)**	**Interviewee 3 (I3)**
Position	expert in Accounting Department	Finance Director	acting Finance Director
Sector	banking	services	industry
Year in which the company-employer of the interviewee adopted IFRS	2005	2006	2009
Interview date	6.04.2016	21.04.2016	11.05.2016
	Interviewee 4 (I4)	Interviewee 5* (I5)	Interviewee 6* (I6)

[4] Those who refused to take part in the study invoked one of the two following reasons: lack of time or ban on sharing information about their respective companies (despite prior reassurance about the anonymous character of the study).

Position	certified auditor, consultant in IFRS implementation	Finance Director	consultant in IFRS implementation
Sector	auditing company	banking	banking
Year in which the company-employer of the interviewee adopted IFRS	–	2015	2015
Interview date	18.05.2016	21.09.2016	21.09.2016

Our respondents (I5 and I6) work in the same bank, one of them (I6) participated in the adoption of IFRS in two other banks.
Source: own elaboration.

We conducted five interviews: four direct interviews (in one of them there were two respondents (I5 and I6)) and one over the phone (I2). In the case of one interview the respondent (I3) first sent her/his answers in writing and then supplemente d them during a face-to-face meeting. Each interview took ca. 30-40 minutes. The interviews were not recorded, only notes were taken. Prior to the interview, respondents received a set of 9 questions (appendix 1) and they were informed that the report from the study would not contain their personal data unless they so wish.

4. Findings from interviews

Our study shows that two benefits of preparing financial statements based on IFRS, rather than on the Accounting Act, most often mentioned by respondents are: the access to capital, including foreign capital (I2, I4, I5, and I6) and comparability of information (I4, I5, and I6). One of respondents stated: “Principal benefits consist in more detailed and broader information concerning the financial position of a company, in particular with respect to financial instruments and risks. (…) Anyone who wishes may use it” (I3). Besides, respondents highlighted benefits connected with IFRS-based solutions regarding provisions which are more profitable for their organisations than solutions proposed in the Polish Accounting Act (I5 and I6); significantly enhanced transparency of financial statements, especially consolidated ones (I5 and I6); preparing one set of reports for capital groups without the need to draft a second set based on other regulations (I4). Only one respondent said that he/she “cannot see any measurable benefits” (I1).

All interviewees agreed that the quality of information included in financial statements has changed with the adoption of IFRS. Three respondents (I4, I5, and I6) claimed the relevance, reliability, comparability, and understandability of information have changed. One person argued that: “Disclosers are much more useful in IFRS-based format than based on the Accounting Act. IFRS-based financial statements are much more extensive. (…) The Accounting Act is not adequate for the industry-specific .... Comparability among industries is much better. IFRS are more reliable as they explain the estimates. The Accounting Act is more restricted and does not require disclosures in relation to estimates” (I4). Another respondent explained the improved quality of information by saying that “we get not just numbers but data substantiated by comments, explanations, and text content” (I3).

According to one interviewee, the understandability of financial statements has improved: “We can see much more, and if anyone so wishes he/she can find everything” (I1); the same can be said about reliability: “more information must be disclosed so it is easier to explain some inconsistencies” (I1). The same respondent expressed doubts about changes in relevance of information: “due to the volume of financial statements and the lack of their mandatory format” (I1) and comparability: “because there is no mandatory format of financial statements” (I1).

One respondent maintained the quality of information has changed with regard to disclosures but he/she stressed that “disclosures languish in desk drawer, (…) investors have their own models, they examine balance sheet, statement of profit or loss, and statement of cash flows, they do not study disclosures” (I2). The same person claims that understandability and comparability of information have not changed. Asked about reliability of information he/she responded that “reliability is ensured by the auditor” (I2).

In the opinion of four interviewees (I1, I2, I3, and I4) applying IFRS to financial statements has not increased (rather not increased – I3 and I4) the scope of information that could be useful to external users (Boards). One respondent concluded: “IFRS provide no value added to the Board, they are tools to communicate with investors” (I2). For two interviewees the scope of information useful to internal users has increased (I5 and I6).

Speaking about difficulties and challenges faced by companies which prepare financial statements in line with IFRS rather than with the Accounting Act, respondents mentioned: changes in IT systems (I5 and I6), lack of experienced staff (need to hire new employees, also consultants) (I5 and I6), impairment test and disclosures with regard to financial instruments and risk management (I3), frequent changes to IFRS (the Accounting Act is not amended so often) (I1), problems with interpreting amendments to IFRS (I1), understanding IFRS principles and preparing the first IFRS-based financial statements (I4).

Additional costs incurred by companies preparing IFRS-based – not the Accounting Act – financial statements included: training courses (I3 and I4), consultancy (I1 and I3) ("I have not come across a bank that would not hire an external advisor (one of the expensive Big Four) to help them adopt IFRS 9" (I1)), additional outlays on databases and reporting systems to adjust them to evolving requirements (I1 and I3), a bigger team (I5 and I6), time needed to prepare a more extensive report ("e.g., instead of 20 pages one is expected to prepare a 90-page report" (I4)), consultancy with auditing companies.

One respondent (I3) claimed that in general additional costs occur when IFRS are adopted and then they practically do not recur. Another one explained: "We do not employ external consultants; we know how to prepare financial statements, we have experts in-house. Auditors are inflexible; in the Big 4 they have internal manuals, it is difficult to discuss with them. Consulting is very expensive and you become dependent on consultants. It is better to invest in good employees" (I2).

Interviewees were divided as to the relationship between costs and benefits of preparing financial statements based on IFRS rather than on the Accounting Act. For instance, one respondent (I4) suggested that where one company maintains relations with various stakeholders, benefits are higher than costs, while when there is just one shareholder – a dominant company in a given business, costs exceed benefits. Another respondent maintained that "benefits largely exceed costs" (I3). One interviewee claimed he/she did not know: "costs reach millions (consultants, IT systems) and benefits are unquantifiable" (I1). Another respondent stressed that "financial benefits [Eurobonds – authors' comment] cover the cost of IFRS implementation" (I5 and I6).

In general, interviewees were of the opinion that it is not necessary to extend the scope of mandatory adoption of IFRS in Poland. One respondent noted that the decision should be left to the owners and he/she added that "to small companies implementing IFRS does not make sense" (I2). Another one (I3) concluded that companies listed at the Warsaw Stock Exchange and businesses within their capital groups should prepare IFRS-based financial statements; others not necessarily (I3). There was one respondent who proposed to "leave the gate open for fully dependent entities where the only one stakeholder is, e.g., one company" (I4).

Respondents stressed different length of time needed to implement IFRS, ranging from 12 months to 2.5 years. When it comes to costs incurred by companies in relation with the adoption of IFRS, respondents (I3, I4, I5, and I6) listed the following categories: training, services, change of the IT system. An interviewee estimated the cost of his company's implementing IFRS to ca. PLN 500, 000 (I3). Other respondents (I5 and I6) claimed the cost of IFRS adoption is ca. PLN 5 million (including: IT system – PLN 3 million, cost of hiring new employees – PLN 1 million, services – PLN 400, 000-500, 000, and personnel training – PLN 100, 000). Estimates provided for small companies (I4) suggest the cost of IFRS adoption for a small company amounts to several dozen thousand Polish zlotys (including: cost of training ca. PLN 20, 000, ordering a financial statement standard ca. PLN 30, 000); for big capital groups the cost of IFRS adoption amounts to some millions of PLN (model building in systems is very costly). The same respondent (I4) stressed that the cost of implementing IFRS depends on industry. Another one observed that the costs of IFRS adoption in Poland "back in 2005 (…) were twice as high as nowas everybody was implementing at that time" (I6).

Respondent (I4) identified the following major difficulties/challenges facing various companies in connection with IFRS adoption: implementation of IFRS 4, IFRS 9, and IFRS 15; personnel resistance ("they do not see direct benefits" (I4)) and the need to restructure management accounting in some entities, e.g., in banks. Another one (I3) stressed that his/her company encountered major difficulty in identifying the value of assets as of the date of IFRS implementation. Respondents (I5 and I6) mentioned the following major difficulties/challenges faced by their company: implementation of IFRS 39, staff and Board resistance, IT system, and the impairment model.

5. Discussion and limitations

Literature review (Section2) presents that lower cost of capital is the most often mentioned benefit for companies which prepare IFRS-based financial statements. It is connected with the increased transparency and comparability of financial statements and extended scope of disclosure. Moreover, easier access to capital is often mentioned as a benefit.

The interviews conducted by the authors confirm that from the point of view of preparers and consultants, the adoption of IFRS in Polish companies has resulted in better quality of information (comparability and transparency of financial statements) and has given them better access to capital (including foreign capital). However, they do not confirm that IFRS implementation has contributed to lower cost of capital. No-one mentioned that benefit. The interviews have also confirmed the extension of the scope of disclosure.

When it comes to costs involved in the adoption of IFRS, as shown by the literature review outlined in Section 2, three principal cost areas include: change of IT systems, human resources (staff training and hiring additional employees), and external support. These costs depend on the size of a company, industry, and other factors.

Interviews conducted by the authors confirm that the implementation of IFRS in Polish companies usually involves the same costs as the ones mentioned above. In Poland the cost of big capital groups implementing IFRS amounts to several million PLN, in small companies it reaches several dozen PLN (including the cost of training ca. PLN 20, 000 and financial statement standard ca. PLN 30, 000). These costs depend mainly on the size of a company and industry in which it operates.

Moreover, it should be noted that the adoption of IFRS in Poland is currently easier and much cheaper than over a decade ago, when all listed companies and banks had to start preparing IFRS-based consolidated financial statements. Nowadays, there are many more experts, with good knowledge of IFRS and a lot of experience in implementing these standards.

Difficulties faced by companies which implement and use IFRS described in other publications have been confirmed in the interviews, especially: lack of IFRS knowledge among the staff, complexity of some of IFRS, lack of their uniform interpretation, and resistance of the employees.

In this study, the analysis of the costs and benefits of preparing IFRS-based financial statements in Poland from the point of view of preparers and consultants is based on just a few interviews. All respondents represented big entities[5], half of them worked in banks. Results of similar studies would be more valuable if they included more interviews with representatives of different industries and companies of different sizes.

6. Conclusion

The results of the study on the costs and benefits of IFRS implementation in Poland from the perspective of preparers and consultants confirm only some benefits mentioned in literature for companies which apply these standards. With regard to costs and difficulties experienced by Polish companies in relation with IFRS implementation, findings of the study are similar to the results of studies conducted in other countries.

That is quite obvious as costs are identified and incurred on the implementation, while benefits will be observed in the long term. Our study shows that IFRS implementation in Poland is nowadays easier and much cheaper than in 2005. However, some obstacles faced by EU companies in the course of IFRS implementation at that time (e.g., Jermakowicz, Gornik-Tomaszewski, 2006) still exist. We mean here especially the following aspects: the complex nature of some IFRS, lack of the uniform interpretation of IFRS and their constant changes.

The analysis of earlier studies has shown that we cannot clearly assess whether the benefits of IFRS adoption exceed its costs. Polish preparers and consultants are also divided over the issue. It should be noted that participants

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[5] Despite attempts made by the authors, they failed to interview employees of small listed companies which apply IFRS.

to the study who have implemented IFRS may occupy a position in the organisational structure of the company that does not allow them to observe benefits (e.g. easier access to funding or image-related benefits), which is why questions concerning benefits of the adoption of IFRS should be addressed a) within appropriate period following the adoption of the new reporting standard to be able to notice benefits, and b) to a wider group of managers responsible for, e.g., raising capital, developing activities in foreign markets, investment policy, etc.

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Appendix 1. Interview questions

1. Since when has your company been preparing IFRS-based financial statements?
2. What are the biggest difficulties/challenges in your company(ies) in relation with preparing financial statements according to IFRS rather than the Accounting Act?
3. What are additional costs incurred to your company because of preparing financial statements based on IFRS rather than on the Accounting Act?
4. What benefits does (do) your company(ies) experience as a result of preparing financial statements based on IFRS rather than on the Accounting Act?
5. In your opinion, what is the relationship between costs and benefits of preparing financial statements in accordance with IFRS rather than the Accounting Act in your company(ies)? Do benefits significantly/slightly exceed costs or the other way round?
6. Has the quality of information (relevance, reliability, comparability, understandability) included in financial statements changed because of implementing IFRS?

7. Has the adoption of IFRS to financial statements expanded the scope of useful information for internal users (the Board) in your company(ies)?
8. Should the obligation to apply IFRS in Poland be extended to cover, e.g., individual financial statements of listed companies and to other companies (which)?

Additional question concerning the costs of IFRS implementation in a given company if the respondent was involved in IFRS implementation:

9. What costs must be incurred by your company in relation to implementing IFRS (e.g., staff training, change in the IT system, external consultancy, etc.)? What were the major difficulties involved in the process/project? What costs are required for the project (order of magnitude)?