The impact of national regulations and company size on the structure and content of the statement of financial position under IFRS. Evidence from Poland

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Abstract: *Previous research on the IFRS practice in the world found the impact of country factors on IFRS financial reporting. Despite the use of the same set of standards there are differences between countries and differences between large and small companies in one country. This paper examines the association between Polish national regulations and the IFRS format of the statement of financial position of Polish listed companies and the differences between large and small companies. I found that IFRS statements of financial position of Polish listed companies are much more condensed than the obligatory format of balance sheet under the Polish Accounting Act. I also found that there are not large differences between the structure and content of the statement of financial position of large and small companies. This paper extends the IFRS adoption literature by examining the statements of financial position of large and small companies from a country where national regulations contain the obligatory formats of financial statements. Moreover, the research relates to a country from Central and Eastern Europe which is often under-represented in the international accounting research.*

Keywords: *Statement of financial position, structure and content, format, IFRS, Poland.*

1. Introduction

It is a widely shared opinion that IFRS implementation around the world has caused a very great increase in a global financial reporting comparability (Zeff, 2007). Better quality of information, including comparability and transparency, is one of the most often listed benefits of IFRS adoption (Łazarowicz, 2017). Nevertheless, despite the IFRS adoption some international differences still exist (KPMG, von Keitz, 2006; Cole *et al.*, 2011; Glaum *et al.*, 2013; Nobes, 2013; Gordon *et al.*, 2017; Klimczak, 2017). Research on IFRS financial reporting finds an association between policy choice and country (Nobes, 2011; Kvaal, Nobes, 2012; Cole *at al.*, 2013; Haller, Wehrfritz, 2013; Walkowiak, 2014, Istrate, 2015) and the differences between IFRS financial statements of large and small companies (Aledo *at al.*, 2011; Nobes, Perramon, 2013).

For many years, Polish listed companies prepared their consolidated financial statements according to strictly defined formats arising from national regulations. Since 2005, however, they have been preparing them using IFRS which do not prescribe any formats for the financial statements. The current IASB work on improving the structure and content of primary financial statements made the authoress of this paper investigate

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the practices of Polish listed companies in the area of one of the components of primary financial statements, i.e., the statement of financial position.

This paper addresses the following questions: (1) is the scope of items in consolidated statements of financial position of Polish listed companies the same or broader than the list of items under IAS 1? (2) does the balance sheet format contained in the Polish Accounting Act have an impact on the structure and content of consolidated statements of financial position of domestic listed companies? (3) are there any differences between small and large companies concerning the structure and content of consolidated statements of financial position?

This paper extends the IFRS adoption literature by examining the statements of financial position of large and small companies from Poland, where domestic regulations contain obligatory formats of financial statements. Moreover, companies from Central and Eastern Europe are often under-represented in the international accounting research (Albu *et al.*, 2017; ICAEW, 2015).

I found that some companies present many more items in their statements of financial position than it is required under IAS 1. However, those statements are much more condensed when compared with the balance sheet format in the Polish Accounting Act. The statement of financial position of only one company from the total sample was very close to the balance sheet format from the Polish Accounting Act. No major differences have been found between large and small listed companies concerning the structure and content of the statement of financial position. The findings of this study may be relevant for standard setters, in particular, the current *Primary Financial Statements* project of IASB, and for academics for future research.

The remainder of this paper is structured as follows. Section 2 reviews prior research relating to the IFRS practice of European and other companies. Section 3 provides information about balance sheet requirements under IAS 1 and the Polish Accounting Act. Section 4 describes data, research methodology, and results of empirical analysis. Section 5 concludes the paper.

2. Literature review

Ernst&Young (2006) reviewed the 2005 IFRS financial statements of 65 companies selected from the largest companies in the world. They found that many companies minimized as far as possible changes in the form of financial reporting that they applied before IFRS implementation. As a result, the Dutch and UK companies had a tendency to present more condensed income statements and balance sheets than companies from France and Spain.

Deloitte (2008) surveyed the annual reports for 2007/2008 of 130 UK companies (30 investment trusts and 100 other companies). They found that for all companies other than investment trusts the variety in presentation of balance sheets was less than that of the income statement. The number of lines of balance sheets varied from 23 to 53 lines (the average length was 31 lines).

Ineum Consulting (2008), in turn, analyzed 2006 financial statements of 270 European companies. Ineum Consulting noted a fair degree of consistency in the presentation of balance sheets taking into account captions, subtotals, and terminology used.

U.S. SEC (2011) analyzed 2009 consolidated financial statements of 183 companies, including both SEC registrants and companies that are not SEC registrants. SEC observed a fair degree of comparability concerning classification of assets and liabilities in the statement of financial position. The majority of companies used a current/non-current classification. However, SEC noted variety in the classification of financial assets in the statement of financial position.

IASB (2016) analyzed IFRS financial statements of 25 large companies from different regions (Asia, Europe, South America and Middle East). IASB found that the structure and content of statements of financial position were more comparable than statements of financial performance. Some companies had large 'other' items in their statement of financial position. For example, in four companies 'other current liabilities' item exceeded 30% of total current liabilities and 10% of total liabilities and equity.

Kvaal and Nobes (2012) analyzed IFRS policy choices made in 2008/2009 by large listed companies from five countries (Australia, the UK, France, Spain, and Germany). They found evidence of the continuation of national patterns of IFRS practice. Nobes and Perramon (2013) made a similar analysis for small companies from the same countries as Kvaal and Nobes (2012). They found significant differences between IFRS policy choices of small and large companies.

Following the research of Kvaal and Nobes (2010), Istrate (2015) analyzed accounting policies of listed companies from Romania. Istrate focused on the individual financial statements from 2006 up to 2013 and found a continuation in the choices of accounting policies during the transition to IFRS.

These and other studies provide evidence that some differences between countries and some differences between small and large companies in one country still exist in IFRS financial reporting.

3. The structure and content of the statement of financial position under IAS 1 and the Polish Accounting Act

IAS 1 does not contain the format or order in which companies should present items in the statement of financial position. There is only the list of minimum items required to present on the face of this statement (IAS 1, par. 54). Companies can present additional items, headings and subtotals in this statement when it is relevant to understand the financial position of the company (IAS 1, par. 55).

In Poland, issues related to the balance sheet are regulated by the Accounting Act which includes detailed principles of its preparation and three obligatory formats (balance sheet format for banks, balance sheet format for insurance companies, and balance sheet format for entities other than banks and insurance companies). These formats contain many more line items than the minimum number of balance sheet items required under IAS 1 and many subtotals. In accordance with the Accounting Act, the balance sheet for entities other than banks and insurance companies should include a detailed classification of intangible assets, property, plant and equipment, investments (including financial assets), receivables, provisions and liabilities (including financial liabilities), and equity, as well as subtotals for each of these categories.

The comparison of regulations on the structure of the statement of financial position under IAS 1 and the Accounting Act is shown in Table 1.

Table 1. **Statement of financial position under IAS 1 and the Polish Accounting Act (excluding banks and insurance companies)**

Topic	IAS 1	Polish Accounting Act
Classification of assets and liabilities	Current/non-current classification, or classification based on liquidity, or mixed basis of classification	Current/non-current classification
Order of presentation of assets, liabilities and equity in the statement	No imposed order	Non-current assets Current assets Equity Non-current liabilities Current liabilities
Obligatory format	No format, only a list of minimum items required to present in a separate line	Obligatory format
Title of the statement	Statement of financial position or other title	Balance sheet
The minimum number of required line items	About 21	About 105 (excluding subtotals)

4. Data, methodology and results

For this paper, the consolidated statements of financial position of domestic companies included in WIG30 and sWIG80 indices were analyzed. The WIG30 index includes 30 largest and most liquid companies of the Warsaw Stock Exchange (GPW) Main List. On the other hand, sWIG80 consists of 80 small-sized companies of the GPW Main List. For the sample, first companies from WIG30 (excluding banks, insurance companies and foreign companies) were chosen. This led to a sample of 21 companies. Then the same number of companies from sWIG80 (excluding the same companies as for WIG30 and companies which did not prepare consolidated financial statements) were chosen on a random basis. The total sample contained 21 companies from WIG30 (large companies) and 21 companies from sWIG80 (small companies). The statements used in the analysis were for 2016. The data for the research was hand collected.

The analysis focused on the following aspects of the structure and content of the statement of financial position: (1) title of statement; (2) classification and order of presentation of assets, liabilities and equity; (2) number of lines items in assets, liabilities and equity; (3) scope of items in assets, equity and liabilities; (4) scope of items for selected categories of assets, liabilities and equity.

Table 2 shows the titles used by companies for their statements of financial position. Most (large and small) companies used the term “statement of financial position”.

Table 2. **Title of statement**

	Number of large companies	Number of small companies
Statement of financial position	19	16
Balance sheet	2	4
Statement of financial position (balance sheet)	0	1
Total	21	21

Table 3 shows the classification and order of presentation of assets, liabilities and equity in the statement of financial position. Almost all (large and small) companies presented first non-current assets, then current assets, equity, non-current liabilities, and current liabilities. The same order and general classification of assets and liabilities is required in the balance sheet format (excluding banks and insurance companies) in the Polish Accounting Act.

Table 3. **Classification and order of presentation of assets, liabilities and equity**

	Number of large companies	Number of small companies
Non-current assets, Current assets, Equity, Non-current liabilities, Current liabilities	19	20
Non-current assets, Current assets, Non-current liabilities, Current liabilities, Equity	1	0
Non-current assets, Current assets, Current liabilities, Non-current liabilities, Equity	0	1
Assets (in decreasing order of liquidity), Liabilities (in decreasing order of liquidity), Equity	1	0
Total	21	21

Table 4 shows the number of line items presented by companies for assets, equity and liabilities. That number omits subtotal items (e.g., total non-current assets, total current assets, total equity attributable to owners of the parent, total financial instruments, etc.). Most (large and small) companies presented 11-20 items of assets and 16-25 items of equity and liabilities (equity items in large companies ranged between 4-7 items and in small companies between 4-14 items). The average number of items in the statement of financial position was 34.4 for large companies and 36 for small companies. By comparison, the number of items in the balance sheet format in the Polish Accounting Act is about 105.

The analysis of the number and scope of items also showed that only one company prepared its statement of financial position in a format very close to the balance sheet format from the Polish Accounting Act (order and names of items, many detailed items, and subtotals).

Table 4. **Number of items in the statement of financial position (excluding subtotals)**

	Number of large companies	Number of small companies
Assets (6-10 items)	2	3
Assets (11-15 items)	8	6
Assets (16-20 items)	10	10
Assets (21-25 items)	1	1
Assets (26-30 items)	0	1
Assets (on average)	*15.3*	*15.9*
Equity and liabilities (13-15 items)	2	6
Equity and liabilities (16-20 items)	13	5
Equity and liabilities (21-25 items)	6	7
Equity and liabilities (26-30 items)	0	3
Equity and liabilities (on average)	*19.1*	*20.1*
Assets, equity and liabilities (21-30 items)	4	8
Assets, equity and liabilities (31-40 items)	13	6
Assets, equity and liabilities (41-50 items)	4	5
Assets, equity and liabilities (51-55 items)	0	2
Assets, equity and liabilities(on average)	*34.4*	*36*

Table 5 shows the number of companies which presented a broader scope of items than in IAS 1 or the same as in IAS 1 for assets, liabilities and equity. Almost all the investigated (large and small) companies presented a broader scope of items for equity and liabilities than the minimum scope required by IAS 1. Likewise, in the case of assets, most companies presented a broader scope of asset items than the minimum catalogue under IAS 1.

Table 5. **Scope of items for assets, equity and liabilities – general analysis**

	Number of large companies	Number of small companies
Assets – broader scope of items than under IAS 1	18	16
Assets – the same scope of items as under IAS 1	3	5
Equity – broader scope of items than under IAS 1	21	21
Equity – the same scope of items as under IAS 1	0	0
Liabilities – broader scope of items than under IAS 1	21	19
Liabilities – the same scope of items as under IAS 1	0	2

Table 6 shows the analysis of the scope of items for selected categories of assets, i.e., intangible assets, property, plant, and equipment, inventories and financial assets. In the case of intangible assets and financial assets a large number of (large and small) companies presented a broader scope of items that that required by IAS 1.

Goodwill was a dominant item in that more detailed classification of intangible assets. Some companies showed *Goodwill* in a separate item (four large companies and two small ones) even though that value was low in relation to total non-current assets (lower than 2%) or total assets (lower than 1%). In the case of financial assets *Derivatives* were fairly often showed as a separate item even though, in the case of all those (both large and small) companies, their value was low in relation to total non-current/current assets (lower than 2%) or to total assets (lower than 1%).

Table 6. **Scope of items for assets**

	Number of large companies	**Number of small companies**
Intangible assets – general line item	6	7
Intangible assets – detailed items	14	14
(including *Goodwill* as a separate item)	(12)	(14)
Intangible assets – no items	1	0
Property, plant and equipment – general line item	17	20
Property, plant and equipment – detailed items	4	1
Inventories – general line item	20	19
Inventories – detailed items	1	0
Inventories – no items	0	2
Financial assets – scope under IAS 1	11	9
Financial assets –broader scope than under IAS 1	10	12
(including *Derivatives* as a separate item)	(6)	(3)

Table 7 shows an analysis of the scope of items for provisions and financial liabilities. In the case of provisions, less than a half of (large and small) companies used a broader scope of items than under IAS 1. *Provisions for employee benefits* was the most frequent detailed separate item. It should be added that such provisions were presented by some companies in a separate item even though their value was low in relation to total long-term/short-term liabilities (lower than 3%) and to total equity and liabilities (lower than 2%). On the other hand, in the case of financial liabilities, almost all large companies and more than a half of small companies presented more detailed items than those required under IAS 1. Within that broader scope of items for financial liabilities all (large and small) companies presented *Loans, borrowings* as a separate item. Some companies presented *Loans, borrowings* as a separate item even though their value was low in relation to total long-term/short-term liabilities (lower than 3%) and to total equity and liabilities (lower than 2%).

Table 7. **Scope of items for liabilities**

	Number of large companies	**Number of small companies**
Provisions – scope according to IAS 1	15	11
Provisions –broader scope than under IAS 1	6	10
(including the *Provisions for employee benefits* item)	(4)	(7)
Financial liabilities – scope according to IAS 1	2	8
Financial liabilities – broader scope than under IAS 1	19	13
(including *Loans, borrowings* item*)	(19)	(13)

*Some companies showed *Loans, borrowings and debt securities* or *Loans, borrowings, debt securities and finance lease liabilities* as one separate item.

In the case of equity, all (large and small) companies presented a broader scope of items than that required under IAS 1 (cf. Table 5); more details are shown in Table 10. All (large and small) companies presented *Retained earnings/Losses carried forward* as a separate item. A significant number of companies (more than a half of large companies and nearly ¾ of small companies) also presented *Share premium* as a separate item. In the case of some large and small companies (nearly a half of them), the value of that item in relation to equity was above 20% and in relation to total equity and liabilities above 10%. Some small companies presented that category in a separate item even though its value in relation to equity was low (lower than 3%) and to total equity and liabilities lower than 2%.

Table 8. **Selected equity items**

	Number of large companies	**Number of small companies**
Retained earnings/Losses carried forward – separate item	21	21
Retained earnings/Losses carried forward – no separate item	0	0
Share premium – separate item	11	15
Share premium – no separate item	10	6

5. Conclusions

This study shows that Polish listed companies presented a broader scope of items in their statements of financial position than the minimum one required under IAS 1. A considerable number of companies used a more detailed classification of intangible assets, financial assets and financial liabilities, and equity. In the case of intangible assets, companies most often presented *Goodwill* in a separate item. In the case of financial assets, *Derivatives* were often presented as a detailed item, and in the case of financial liabilities, *Loans, borrowings* were very often presented in a separate item. In the case of equity, all companies presented a more detailed classification than that required by IAS 1. All companies presented *Retained earnings/Losses carried forward* in a separate item. Moreover, *Share premium* was often shown in a separate item. It can also be said that there are more differences between companies in the classification of items on the side of liabilities than on the side of assets. One of the reasons for this is certainly the fact that the catalogue of required items for assets under IAS 1 is broader than that for liabilities.

Comparing the structure and content of statements of financial position of Polish listed companies with the balance sheet format under the Polish Accounting Act I found that they are consistent in terms of the general classification of assets and liabilities (breakdown into long-term and short-term ones) and the general order of presentation of assets, liabilities and equity (non-current assets, current assets, equity, long-term liabilities, and short-term liabilities). The basic difference is in the number of items. Statements of financial position of the investigated companies are more condensed than the balance sheet format in the Polish Accounting Act and do not contain such a large number of detailed items and subtotals as that format. The average number of items (excluding subtotals) was 34.4 for large companies and 36 for small companies, whereas the number of required items (excluding subtotals) in the Polish balance sheet format is about 105. The number of items in the most condensed statements of financial position was 23 (large company) and 21 (small company). The number of items in the most extensive statements, on the other hand, was 44 (large company) and 55 (small company). Moreover, it should be added that only one company out of the 42 investigated ones used a format of the statement of financial position very close to the balance sheet format from the Accounting Act (order and names of items, many detailed items, and subtotals). The last difference is the title of the statement, as an overwhelming majority of companies used the title: statement of financial position, while the Polish Accounting Act uses the name: balance sheet.

Comparing the structure and content of statements of financial position of large and small companies I found that there are no major differences between both groups of companies. Almost all large and small companies first presented assets broken down in to long-term and short-term ones, then equity, and finally liabilities broken down into long-term and short-term ones. There are minor differences in the detailed classification of individual groups. In the case of intangible assets and equity, the same number of large and small companies presented a more detailed classification than that required by IAS 1. On the other hand, in the case of financial assets and provisions, a slightly larger number of small companies than large companies presented a broader scope of items than required under IAS 1. Only in the case of financial liabilities, a considerably greater number of large companies than small companies presented a broader scope of items than required under IAS 1. Another difference is the number of items in the statement of financial position. More than a half of large companies presented 31-40 items. Among small companies, differences in the number of items in that statement were much greater. The last difference was that, in the case of some small companies, the statement of financial position included items whose value as of the end of 2016 and 2015 was 0. No such cases were recorded for large companies.

The analysis of the structure and content of statements of financial position in this study focused on a limited number of Polish listed companies when compared with the number of companies listed on the Warsaw Stock Exchange (GPW) (487 companies at the end of 2016, including 53 foreign companies). Only some companies were selected from the sWIG80 index; medium-sized companies and banks and insurance companies were omitted. Moreover, the analysis was carried out for one year only. It would be interesting to carry out research analyzing changes of the structure and content of statements of financial position of companies using IFRS over a period of a several years.

It would also be interesting to carry out research analyzing reasons by which the preparers of financial statements are guided when making decisions on the structure and content of statements of financial position.

The last proposed direction of research is the analysis of the opinion of users of financial statements on the structure and content of statements of financial position: whether, in their opinion, the list of items for separate presentation in that statement should not be expanded in IAS 1, especially for equity and financial liabilities.

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