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BENEFITS AND COSTS OF IFRS IMPLEMENTATION IN POLAND¹

1. Introduction

Since 2005 publicly-traded companies in the EU are required to prepare their consolidated financial statements in accordance with IFRS. Over 10 years on, mandatory IFRS implementation in the EU is still an important topic to investigate, in particular its benefits and costs. “The research evidence on the benefits of mandatory IFRS adoption in the EU is generally not conclusive” (*The Effects of...*, 2015, p. x). IFRS implementation in the EU still remains controversial in some quarters (*Moving to IFRS...*, 2015). Moreover, international research is often focused on larger publicly-traded companies and East European companies are often under-represented. Consequently, little is known about the effects of IFRS adoption in Eastern Europe (*The Effects of...*, 2015).

Considering the above, we decided to research consequences of the implementation of IFRS in Poland. The purpose of the study was: (1) to identify costs and benefits of IFRS implementation (based on literature review), (2) to examine stakeholders’ (preparers, consultants, investors and certified auditors) opinions on benefits and costs of IFRS implementation, (3) to compare the effects of IFRS implementation in Poland with previously identified costs and benefits of the process.

This study may be helpful for companies which have not implemented IFRS yet, for standard-setters and regulators.

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, Anna Wachowicz, and presents the conception of this research, its methodology and main findings.

The remainder of this paper is structured as follows: Section 2 reviews prior research relating the effects of IFRS implementation; Section 3 describes the research methods; Section 4 outlines the main findings; Section 5 discusses the results and limitations of the research, and Section 6 concludes the paper.

2. Literature review on the effects of IFRS implementation

In literature numerous diverse benefits associated with IFRS implementation can be found. One of the most often listed benefits is **better quality of information** included in financial statements (Daske, Gebhardt, 2006; Fijałkowska, Jaruga-Baranowska, 2007; Grabiński et al., 2014; Guggiola, 2010; Kędzior, 2015; Kim et al., 2012; Klimczak, 2011; Michalak et al., 2012; *Moving to IFRS...*, 2015). Better quality of information means mainly **its enhanced comparability** (Brochet et al., 2013; Brüggemann et al., 2013; *Evaluation of Regulation...*, 2015; Fox et al., 2013; Grabiński et al., 2014; Jermakowicz, Gornik-Tomaszewski, 2006; Kędzior, 2015; Klimczak, 2011; *Moving to IFRS...*, 2015; *The Effects of...*, 2015) and **transparency** (*Evaluation of Regulation...*, 2015; Fox et al., 2013; Ignatowski, 2008; Jermakowicz, Gornik-Tomaszewski, 2006; Klimczak, 2011; *Moving to IFRS...*, 2015; *The Effects of...*, 2015).

Other benefits frequently listed in literature include: **lower cost of capital** (Brown, 2011; Brüggemann et al., 2013; *Evaluation of Regulation...*, 2015; Fox et al., 2013; Grabiński et al., 2014; Guggiola, 2010; Ignatowski, 2008; Jaruga et al., 2007; Jermakowicz, Gornik-Tomaszewski, 2006; Kędzior, 2015; Kim et al., 2012; *Moving to IFRS...*, 2015; *The Effects of...*, 2015), **increased liquidity of financial markets** (*Evaluation of Regulation...*, 2015; Ignatowski, 2008; *Moving to IFRS...*, 2015; *The Effects of...*, 2015), **an increase in cross-border investments** (Brüggemann et al., 2013; *Evaluation of Regulation...*, 2015; Jermakowicz, Gornik-Tomaszewski, 2006; Kim et al., 2012; *Moving to IFRS...*, 2015; *The Effects of...*, 2015), and **enhanced access to capital** (Guggiola, 2010; Jermakowicz, Gornik-Tomaszewski, 2006).

Besides, the following positive effects of IFRS implementation are often mentioned: increased scope of disclosed information (Guggiola, 2010; Kędzior, 2015), reduced earnings management practices (Guggiola, 2010; Michalak et al., 2012), lower cost of preparing financial statements for international and domestic capital groups (Kędzior, 2015; *Moving to IFRS...*, 2015; Grabiński et al., 2014), improved quality of accounting (*Moving to IFRS...*, 2015), and an increase in audit quality (*Moving to IFRS...*, 2015).

It should be stressed that results of empirical studies suggest that the above benefits are not experienced by all companies or in all countries which have implemented IFRS (*The Effects of...*, 2015; Pope, Mcleay, 2011). Moreover, these benefits may have arisen out of factors other than IFRS implementation.

In contrast to the benefits, costs involved in the adoption of IFRS are much less discussed in the literature. Most analyses focus on costs incurred by companies which prepare financial statements in accordance with IFRS. Many authors stress that IFRS implementation in companies is costly and time-consuming (Guggiola 2010; Jermakowicz, Gornik-Tomaszewski, 2006; *Moving to IFRS...*, 2015). Costs that companies which adopt IFRS incur most frequently include: changing IT systems and processes, staff training, external advisory services (concerning IFRS, taxes, IT, valuation), and additional external audit (*EU implementation of...*, 2007; *Evaluation of Regulation...*, 2015; Fox et al., 2013; *The cost of IFRS...*, 2013). They depend on the size of a company, industry, country, and other factors.

While adopting IFRS, companies are faced with numerous difficulties, such as: little knowledge about IFRS among the staff and auditors (Jermakowicz, Gornik-Tomaszewski, 2006), complexity of some IFRS (Guggiola, 2010; Hoogendoorn, 2006; Jermakowicz, Gornik-Tomaszewski, 2006; Larson, Street, 2004), lack of its uniform interpretation (Jermakowicz, Gornik-Tomaszewski, 2006), and the need to exercise judgements and estimates in the valuation process under IFRS (Kędzior, 2015).

The review of literature on effects of IFRS adoption leads to the conclusion that we cannot unambiguously assess whether benefits of the adoption of IFRS are higher than its costs. It is not easy to analyse the relationship between costs and benefits as some of the latter cannot be quantified. Moreover, most costs connected with the adoption of IFRS are incurred by companies which use these standards, while benefits are distributed among various stakeholders.

3. Research methods

To examine costs and benefits of IFRS adoption in Poland two research methods were used: a semi-structured interview and a questionnaire. Interviews were conducted with persons responsible for preparing financial statements according to IFRS principles in various industries and with those who assist businesses in implementing IFRS (consultants). In total, we interviewed six people: four preparers and two consultants. The questionnaire-based study was conducted on a group of investors (questionnaires were sent out to 125 selected people; 22 responded) and certified auditors

(the questionnaire was sent to four selected certified auditors²; we received answers from three of them). The interviews and the questionnaire-based study were conducted in 2016.

In the interviews with preparers and consultants we asked respondents to identify major difficulties/challenges, additional costs and benefits of using IFRS instead of the Accounting Act. Besides, they were expected to assess the quality and scope of information included in financial statements prepared in accordance with IFRS and to give opinion on potential extension of mandatory use of IFRS in Poland³.

The questionnaire addressed to investors included questions concerning the assessment of IFRS impact on: the scope and quality of information presented in financial statements (transparency, usefulness, and comparability), capital market, investor protection, and investors' decisions. Moreover, we also asked about the need to extend the obligation to apply IFRS in Poland⁴.

In the questionnaire sent out to certified auditors we asked about factors which potentially may increase or decrease the costs of auditing IFRS financial statements compared with auditing financial statements prepared in accordance with the Accounting Act⁵.

4. Main findings

Our research shows that according to preparers, consultants, and investors, the scope and quality of information included in financial statements have

² Due to its volume and time needed to respond to questions, we purposefully addressed the questionnaire to such a small group of certified auditors.

³ Detailed description of methodology and results of this part of the study are presented in the paper: E. Łazarowicz, M. Mierzejewska, *Benefits and costs of IFRS implementation in Poland – the view of preparers and consultants*, submitted to the 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.

⁴ Detailed description of methodology and results of this part of the study can be found in the paper: K. Klimczak, A. Wachowicz, *Benefits and costs of IFRS implementation in Poland – the investors' perspective*, submitted to the 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.

⁵ Detailed description of methodology and results of this part of the study can be found in the paper A. Karmańska, *Benefits and costs of IFRS implementation in the opinion of Polish certified auditors*, submitted to the 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.

improved as a result of IFRS adoption in Poland. With regard to the scope of information, the opinion concerns mostly disclosures. All groups of respondents pointed to better comparability of information as evidence of its higher quality.

Besides changes in the scope and improved quality of information, preparers and consultants mentioned the access to capital (including foreign) as another benefit. It should be stressed that no-one considered lower cost of capital as a benefit.

Most investors claim that transition to IFRS increases investors' protection. However, majority of investors do not agree that the IFRS implementation has enhanced liquidity in the Polish capital market or reduced information asymmetry between top managers in a company and users of financial statements.

Almost half of investors argued in favour of extending the scope of mandatory IFRS application for companies in Poland. To preparers and consultants in general that was not necessary.

Speaking of the cost of IFRS implementation, they are largely incurred by companies preparing IFRS financial statements and partly by certified auditors who audit these financial statements. For companies, IFRS adoption involves additional costs, such as: training, consultancy, changes in IT systems, and hiring new employees. Amongst the major difficulties/challenges connected with the transition to IFRS respondents listed, inter alia: implementation of some IFRS, employees' resistance, and the IT system. The cost of the adoption of IFRS to small companies amounts to several dozen thousands PLN, and up to several million PLN to big capital groups. The costs depend on the size of a company and on the industry.

Preparers of financial statements and consultants do not share an unambiguous assessment of cost and benefit relationship involved in preparing financial statements in accordance with IFRS.

When analysing costs and difficulties related to IFRS implementation from the certified auditors' perspective, respondents concluded that – in comparison with auditing financial statements prepared in accordance with the Accounting Act – IFRS intensify difficulties involved in validating the reliability of data with regard to the valuation of assets and liabilities, increase the total risk of audit, cause more time-consuming examination of assets impairment test and estimates. Assessing the relationship of the time needed to conduct, for the first time, an audit in a company that uses IFRS and in a company that applies the Accounting Act, all respondents claimed that the first audit is much more time-consuming in a company that applies IFRS.

5. Discussion and limitations

The literature review presented in Section 2 has shown that improved quality of financial statements (mainly comparability and transparency) is the most often quoted benefit resulting from the adoption of IFRS. Moreover, benefits, such as lower cost of capital, enhanced liquidity of financial markets, intensified cross-border investment, and better access to capital are frequently mentioned.

Our research confirms that IFRS implementation in Poland has improved the quality of financial statements, in particular comparability, increased volume of disclosures, and provided access to capital (including foreign).

However, the research has not confirmed that IFRS implementation in Poland has contributed to the lowering of the cost of capital, enhanced liquidity of financial markets or increased cross-border investment.

When it comes to costs involved in IFRS implementation, the study confirms that the adoption of IFRS by Polish companies usually entails the same costs as those incurred by companies in other countries, in particular: change of IT systems, training for the staff, external support, and additional external audit. These costs depend on the size of the company and on the industry.

Our study has not provided an unambiguous answer as to whether benefits resulting from IFRS implementation by Polish companies are higher than the costs of the process. Companies required to prepare financial statements incur the majority of costs associated with IFRS adoption and, in general, these costs can be estimated quite accurately. However, quantifying benefits involved in IFRS implementation is much more difficult if not impossible. Moreover, they are distributed across various stakeholders.

Our study shows that the main benefit to Polish companies which prepare financial statements in accordance with IFRS consists in access to capital (including foreign). Generally, the transition from the Accounting Act to IFRS does not expand the scope of useful information available to the management of a given company. It brings benefits to investors, who obtain a wider scope of more comparable information in financial statements.

Currently, the mandatory application of IFRS in Poland should not be extended. The opinion of preparers and consultants is not unambiguous as to the relationship of benefits to costs of preparing financial statements in accordance with IFRS rather than with the Accounting Act. Besides, more than half of respondents among investors did not consider it necessary.

In this study, the analysis of costs and benefits of IFRS implementation in Poland from the preparers' and consultants' perspective is based on just several interviews. Results of similar studies would be more valuable if they were obtained from many more interviews/questionnaires and conducted for

different industries. Additionally, companies should be broken down by size within industries.

Moreover, the perspective of lenders and other creditors was omitted in the study. It would be interesting to investigate also their opinions on the benefits and costs of IFRS implementation, because they are considered, together with investors, the main users of IFRS-based financial reporting (*A Guide through IFRS*, 2013, paragraph OB2).

6. Conclusion

The results of the research on the costs and benefits of IFRS implementation in Poland confirm one of the conclusions from the literature review outlined in Section 2 that potential benefits of IFRS implementation are not experienced by all companies or in all countries. On the other hand, the costs of IFRS implementation incurred by Polish companies are similar to the costs incurred by foreign companies.

Although IFRS have been applied in the EU for over a decade, there are still areas for further research. Besides research directions listed in the previous section, which result from the limitations of this study, below we propose more areas to explore.

Firstly, there is still little research related to the costs of IFRS implementation. It is generally believed that IFRS implementation is a costly and time-consuming process. Hence, studies should be initiated also with regard to that to identify solutions that would help reduce costs⁶.

Secondly, another research should address the extent to which different users take advantage of the wider scope of information presented in IFRS-based financial statements. Our research, like many other studies, shows that in the opinion of preparers and consultants, as well as investors, the scope of information included in financial statements based on IFRS has increased. Thus, a question arises as to whether the expanded scope of information, especially disclosures, is used by external users or whether “these disclosures languish in desk drawer” to quote from an interview with one of the preparers. If external users use this information, the next question to be asked is which information from the expanded scope they find most useful and which they consider irrelevant?

⁶ An extensive and detailed report on costs of IFRS adoption in Canada is an example of a valuable research in this field. The report includes data from over 100 public companies and other organisations (*The cost of IFRS...*, 2013).

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