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THE IMPACT OF HARMONIZATION AND STANDARDIZATION OF ACCOUNTING ON INFORMATION INCLUDED IN FINANCIAL STATEMENTS

Summary
The information about a business coming from the accounting system has got an important decision-making impact on both internal and external receivers. The information should be reliable and internationally comparable, hence the need to harmonize the legislation in this area is currently one of the basic challenges of accounting. This paper discusses the process of harmonisation and standardisation of accounting and the proposed changes to the financial reporting of economic entities developed by the International Accounting Standards Board and the Financial Accounting Standards Board.

***Key words**: harmonisation, standardisation, financial reporting, financial reporting conceptual framework*

Introduction

Modern economy needs reliable information in order to function properly and the basic source of this information on the market is financial reporting. The ongoing globalisation processes have created new challenges for financial reporting, which apart from reliability bring a possibility of comparisons and analyses in various markets and countries. The lack of standardised, complete and well-prepared data may lead to wrong decisions, both strategic and operational, at various levels of management. Useful information, which means reliable and comparable information, allows reducing the economic and investment risks in the international and local economic markets.

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The ongoing process of harmonisation and standardisation of accounting has led to the development by IASB and FASB of global accounting standards and a new concept of financial reporting related to them, which consistently gives a financial overview of a business unit activity. The aim of this paper is identification and assessment of the impact of harmonisation and standardisation of accounting on information included in financial statements. The paper was elaborated on the basis of literature studies and procedures that regulate the creation of international accounting and financial reporting standards as of 12/2016.

1. The process of homogenising of legal regulations regarding accounting on international scale

Accounting emerged as a result of historical development of the economic and social structures. The significance of accounting is considerable because it influences the effectiveness of the markets and stability of financial and economic sectors locally and globally[1] by providing financial information. The globalisation and development of international financial markets involve the implementation of homogenous international regulations of the accounting system.

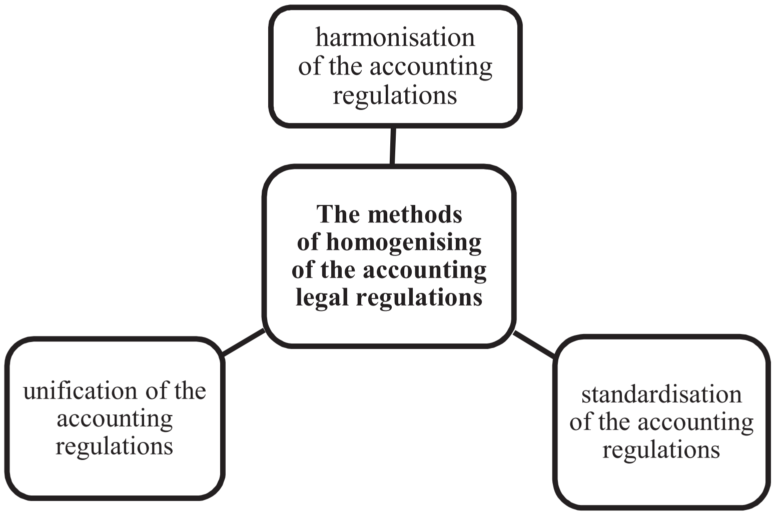
The aims of homogenising of the accounting regulations internationally are as follows:

- an increase of financial reporting comparability,
- an increase of investors' confidence in financial reporting,
- a decrease of operating costs of international corporations using the homogenous reporting in the whole organisation,
- creation of a model for establishing the local legal regulations in terms of accounting,
- presentation of accounting as an international business language.

The methods of homogenising of the legal regulations regarding accounting on an international scale are presented in Figure 1.

[1] A. Kostur, *Czynniki i zakres harmonizacji rachunkowości* [in:] *Problemy harmonizacji rachunkowości.* Scientific Journal no 73, University of Economics in Katowice 2011, p. 14.

Figure 1 The methods of homogenising of the accounting legal regulations



Source: Own elaboration

Harmonisation is a term used in international accounting to describe the process of reducing differences in financial reporting between the countries. Harmonisation of the accounting principles is aimed at reducing the number of accounting practices by defining such a set of them, in terms of which the enterprises may choose the possible solutions regarding specific accounting principles[2].

Standardisation of accounting means applying the same rules and principles for preparing financial statements, so it suggests imposing more strict and narrow set of rules for enterprises to follow. A higher level of standardisation is the standardisation, which enables the implementation of unified principles of accounting, including the financial reporting, regardless of the impact range. Therefore, the successful harmonisation of the accounting principles may ultimately lead to its standardisation[3].

[2] *Rachunkowość finansowa. Teoretyczne podstawy.* (ed.) J. Samelak, Publishing House of Academy of Economics in Poznań, 2006, p.43-44.

[3] J. Samelak, Determinanty sprawozdawczości finansowej przedsiębiorstw oraz kierunki jej dalszego rozwoj, Publishing House of Academy of Economics in Poznań 2004, p. 57.

Unification of accounting regulations is an attempt to find one, universal approach towards particular issues of accounting, related directly to a gradual elimination of other legal solutions in particular countries. The aim of the mentioned-above is a rejection of the local legal regulations upon the entry into force of new regulations of a wide range.

Selected institutions, which deal with homogenising of the accounting legal regulations on an international scale, are presented in Table 1.

Table 1. Institutions dealing with homogenising of the accounting legal regulations

International Accounting Standards Board (IASB)	An independent body of the IFRS Foundation, which brings together over 100 professional organisations and is aimed at: • formulating and publishing, according to the public interest, of the accounting standards, which should be obeyed during the financial statements presentations, • the activity that involves the improvement and harmonisation of the accounting regulations (standards) and the procedures related to the preparation and presentation of the financial statements, • the promotion of standards in order to make them accepted and obeyed worldwide,
Financial Accounting Standards Board (FASB)	It is a non-public institution that operates in the United States and develops accounting standards known as Generally Accepted Accounting Principles (US GAAP). Considering them transnational regulations is related to the fact that[4]: • the preparation of financial statements according to US GAAP allows the company to be listed on the New York Stock Exchange and access other American capital markets, • more and more European enterprises prepare their financial statements according to US GAAP, • the conceptual assumptions of IASB were modelled on the previous works of FASB, • the regulations of US GAAP are detailed, include less alternative solutions and also cover the public sector and some branches of the industry.

[4] J. Gierusz: *Standaryzacja i harmonizacja rachunkowości międzynarodowej*. Rachunkowość międzynarodowa. The paper under the editorship of L. Bednarski, J. Gierusza, Polskie Wydawnictwo Ekonomiczne, Warszawa 2001, p. 140.

The International Federation of Accountants (IFAC)	It is an organisation aimed at: • strengthening and developing of accounting profession worldwide, • promoting and supporting of the harmonisation process by: initiating, coordinating and issuing international statements and guidelines related to the financial field, ethics and education (International Standards for Auditing, the Code of Ethics for Professional Accountants).
The Accounting Regulatory Committee (ARC)	The aim of ARC is harmonisation of the accounting provisions and standards in particular countries of the European Union.
The Working Group of the Accountancy	A group acting within Organisation for Economic Cooperation and Development (OECD). Its main tasks are preparing and presentation of the reports on accounting principles binding in certain countries and comparability of the financial statements.
The European Commission	It elaborates and issues Directives, which are elementary legal instruments of this body.
The International Financial Reporting Interpretations Committee (IFRIC)	A committee appointed to give support to IASB in terms of improving the International Financial Reporting Standards.
The International Auditing Practices Committee (IAPC)	A committee acting within the International Federation of Accountants (IFAC) that deals with establishing guidelines in terms of harmonising the financial audits.
The Auditing Standards Board (ASB)	An organisation dealing with establishing within the United States the standards on auditing, attestations, quality control reports, etc.
The American Institute of Certified Public Accountants (AICPA)	An institute appointed to deal with the accounting certification in the public sector and improvement of the auditing standards in the United States.
The European Financial Reporting Advisory Group (EFRAG)	An organisation that prepares opinions in terms of the approval process of the International Financial Reporting Standards.
The Financial Accounting Standards Committee (FASC)	An organisation providing mainly comments on the issues related to the financial reporting.

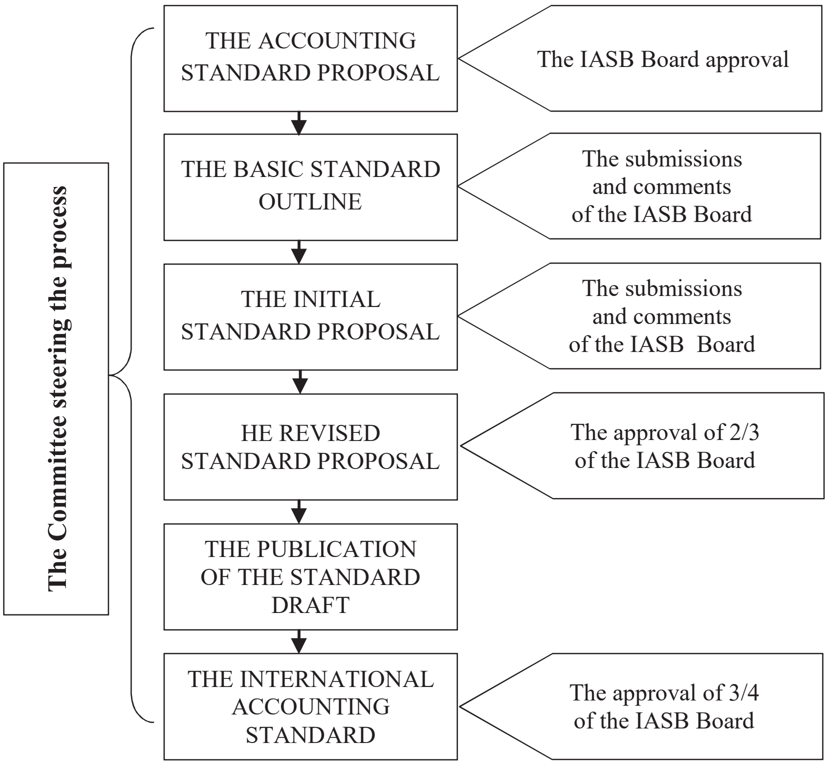
Source: Own elaboration

The international organisations, which deal with dissemination of knowledge of accounting, are:

- The European Accounting Association (EAA),
- The International Association for Accounting Education and Research (IAAER).

The legislative process of IAS/IFRS is multistage (Figure 2). In the process, there participate accounting specialists, financial analysts, scientists and business representatives.

Figure 2. The legislative process of IAS/IFRS



Source: Own elaboration

Proper construction of IAS/IFRS requires from its creators:

- defining and analysing all the issues related to the given problem and then considering a possibility of applying a conceptual framework of preparing and presenting financial statements[5] according to IAS with reference to those issues,

- an analysis of local requirements and accounting practice and the exchange of views on this issue with local entities that establish the standards,
- consulting the permanent advisory group on the legitimacy of including a given problem to the Board's agenda,
- establishing of an ad-hoc consultative group with reference to the draft,
- publishing of an initial discussion paper in order to submit it to the public discussion,
- publishing of the standard draft approved at least by eight votes of the Board members in order to submit it under public discussion, including publishing of dissenting option of the Board members,
- publishing the rationale of the proposals in the standard draft,
- considering of all the submissions, which were received in response to the discussion papers and standard drafts,
- approval of the standard by the Board members and including all the dissenting options into the published standard,
- publishing – including the standard – the rationale of the proposals that explain, among others, the stages of proper procedures and the method by IASB of consideration of the comments received on the standard draft in public discussion[6].

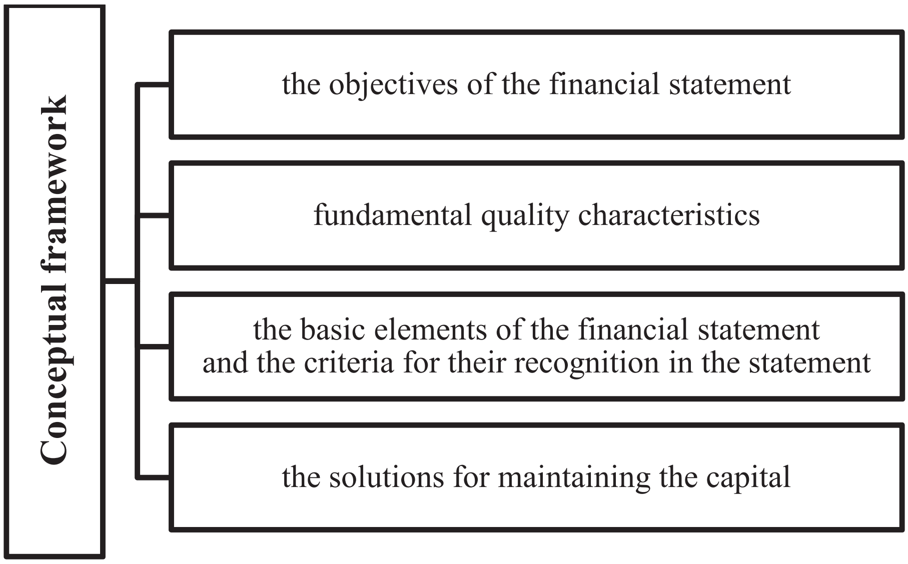
2. Financial Reporting Conceptual Framework

The Conceptual Framework of preparing and presenting the financial statements is also known as "the IFRS Conceptual Framework". They involve general fundamental principles for preparing and presenting financial statements for general purposes of external users and they constitute the general, theoretical structure of financial accounting, which provides guidelines for formulating the accounting practices (Figure 3).

[5] The conceptual framework of preparing and presenting the financial statements was discussed later in this report.

[6] Z. Messner: Rachunkowość finansowa z uwzględnieniem MSSF, PWN, Warszawa 2007, p. 41.

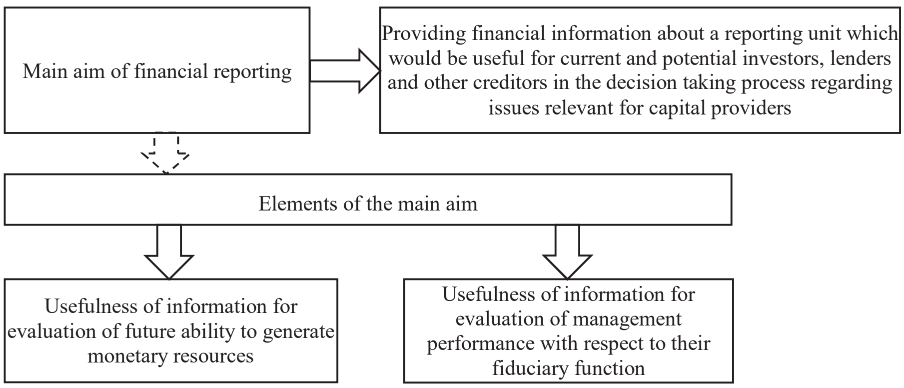
Figure 3. The concept system of the Conceptual Framework



Source: Own elaboration

The main objective of the Conceptual Framework of preparing and presenting the financial statements is to provide financial information on the reporting entity, which is useful in terms of current and potential investors, creditors and other stakeholders in the process of making decisions concerning the further financing of the entity (Figure 4).

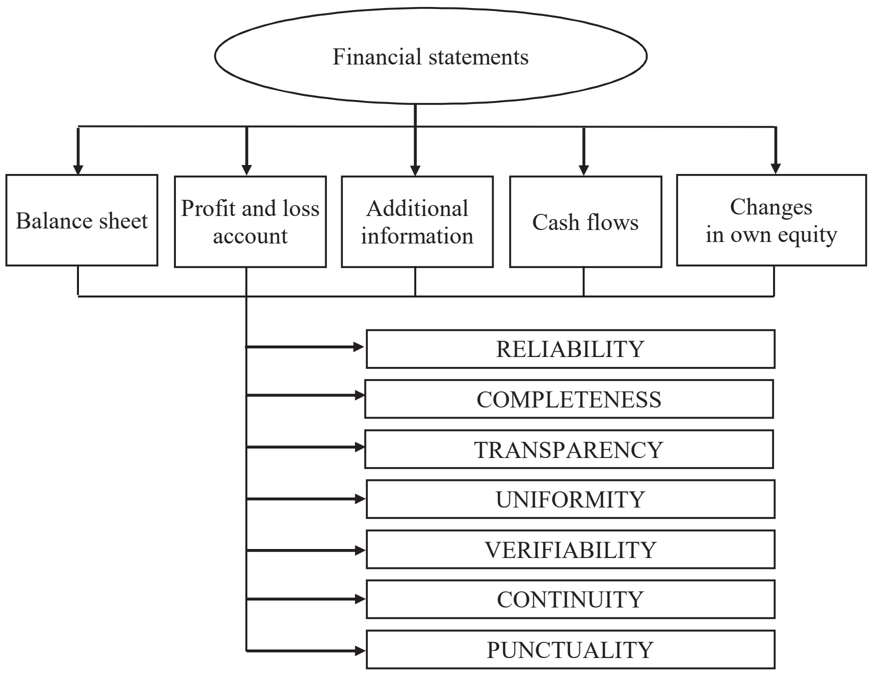
Figure 4. The objective of financial reporting according to Conceptual Framework



Source: Own elaboration based on: A. Jaruga, M. Frendzel, R. Ignatowski, P. Kabalski, *Międzynarodowe Standardy Sprawozdawczości Finansowej (MSSF/MSR) 2009. Najnowsze zmiany,* Stowarzyszenie Księgowych w Polsce, Warszawa 2009, p. 29.

The Conceptual Framework involves the fundamental quality characteristics of useful financial information included in the financial statements such as usefulness, comprehensibility, meaningfulness, credibility, comparability, timeliness, verifiability (Figure 5). Moreover, they present basic elements of financial statement and the criteria for their recognition in the statement, whereas the elements directly related to the financial position of the entity are assets, liabilities and equity, and the elements directly related to the entity's results – the revenue and expenses.

Figure 5. The quality characteristics of the financial statement



Source: Own elaboration

The reliability of financial statement is reflected in its compliance with the real data selected from the accounting system. This characteristic may also be called veracity, because only on the real data there should be based the assessment of the entities' activity as well as rational decisions. The veracity of reporting information is dependent on the reliability of accounting[7].

The complete statement is aimed at covering all assets elements, equities and consequential operations. The completeness requires covering all the recognised and foreseen economic issues, which are within the subject field of the statement. The lack of significant details, which relate to the economic events means incompleteness of information and thereby its incredibility. This characteristic is strongly related to the materiality principle, one of the guiding principles of accounting discussed previously[8].

The transparency of financial statement is connected to the presentation of data in form of a system, which allows highlighting the mutual connections and correlations between particular pieces of data. The information grouped and organised correctly make the statement transparent and legible for potential stakeholders.

The uniformity of financial statements brings a possibility of conducting comparative analyses of particular elements of the statement and the data included. It involves adherence of unified principles of grouping and presenting of the data in particular reporting periods and sectors of the economic entity.

The verifiability of the financial statement includes a possibility of verifying relevant descriptive and quantifiable data. The verifiability brings a possibility of referring to the source of data included in the documentation being the basis of endorsement in accounting.

The continuity of financial statement is related to the guiding principle of accounting, namely the continuity principle. It is a necessity of a proper connecting of the reporting information in the subsequent periods. It results in defining and indicating the changes and principles of interpretation of particular data included in the statements.

The timeliness means obeying strictly defined deadlines related to preparing and submitting the financial statements to their recipients, which allows for proper use of data included in those statements[9]. In the economy of developed countries a lot of attention is paid to the issues of

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[7] B. Micherda, Problemy wiarygodności sprawozdania finansowego, Difin, Warszawa 2006, p. 117.

[8] H. Buk, Nowoczesne zarządzanie finansami. Planowanie i kontrola, C.H.BECK, Warszawa 2006, p. 177.

[9] B. Micherda: *Problemy…op.cit.,* p. 117.

value measurement during the period of inflation. Based on this idea, there are many concepts, which allow for realising the principle of maintenance of the nominal capital, real or physical (Figure 2).

Figure 2. The solutions of maintaining the capital

Financial solution for maintenance of the capital	According to this solution the profit is gained not only when the financial net value (or monetary) of the assets at the end of the period exceeds the financial net value (or monetary) of the assets at the beginning of this period, after excluding all the contributions made by the owners in the given period. The maintenance of financial capital can be measured with monetary units of the nominal value or units of the constant purchasing power: • The principle of maintaining nominal capital is realised when the nominal value of the own capital at the end of the period is not lower than its value at the beginning of the period. The assets of an enterprise are considered permanent and unchanged if the revenues of the given period cover the disposal of goods, priced according to the actual prices of their purchase. In this solution, the money is the measure of the assets value and the financial result. This principle does not include the inflationary drop of money value, which may lead to the loss of the entity's assets. • The principle of maintaining the real capital states that the permanency of the own capital is when its value at the end of a given period reflects general purchasing power, not less than its value at the beginning of this period. In case of this principle the measurement of the assets value and profit is the basket of goods, being the basis of the defined price index, and money is the measurement unit.
The substantive solution for the capital maintenance	According to this solution the profit is made only when the production capacity (or operational possibilities) of the entity (or resources or funds necessary for attaining this capacity) at the end of the period exceeds the production capacity at the beginning of the period, after excluding all the payments to owners and contributions made by them in the given period.

Source: Elaborated on the basis of: Międzynarodowe Standardy Sprawozdawczości Finansowej (MSSF). T.1. Stowarzyszenie Księgowych w Polsce. Warszawa 2011, p. A55; B. Micherda (ed), Współczesne uwarunkowania kwantyfikacji w rachunkowości. Difin, Warszawa 2013, p. 39.

The fundamental difference between those two discussed solutions for the maintenance of the capital is a different approach towards the results of the changes to the assets price and the value of liabilities of the entity. Generally speaking, an entity maintains their capital if the capital at the end of a given period is not different from the capital at the beginning of this period. Any excess over the amount, which is necessary for the capital maintenance from the beginning of the period is a profit.[10]

3. The changes to the financial reporting according to IASB and FASB

The ongoing changes in the global economy and the increasing necessity for useful information on entities in the international markets caused that organisations such as the International Accounting Standards Board and The Financial Accounting Standards Board started the cooperation, which is aimed at creating global accounting standards. Therefore, there began the process of convergence of IFRS and US GAAP. The actual users of financial statements indicate the necessity for their systematising and standardisation, because:

- currently there is no coherence among particular elements of the financial statement,
- there is insufficient accuracy of the data, which is presented in the financial statements, which restricts its usefulness for making decisions11.

The common concept of financial reporting elaborated by IASB and FASB states that full financial statement should cover:

- the statement on the financial position at the end of the period,
- the statement on the total revenue of the period,
- the statement on the cash flow of the period,
- the statement of changes in equity of the period and notes.

The statement on the financial position at the end of the period replaces the actual balance. The statement on the total revenue of the period replaces the actual profit and loss account, named also the outturn account. The notes cover the summary of the most important principles of accounting and other explanatory data.

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[10] *Międzynarodowe Standardy Sprawozdawczości Finansowej (MSSF).* T.1. Stowarzyszenie Księgowych w Polsce. Warszawa 2011, p. A55.

[11] B. Micherda (ed.), Współczesne uwarunkowania kwantyfikacji w rachunkowości. Difin, Warszawa 2013, p. 28.

According to the new concept, particular statements shall be divided into sections and categories in accordance with the management approach, which includes the usefulness of information.

The elements of the "new" financial statement are presented in Table 3.

Table 3. The systematics of information presented in the financial statement according to IASB and FASB

The statement on the financial position at the end of the period	The statement on the total revenue of the period	The statement on the cash flow of the period
Economic activity	**Economic activity**	**Economic activity**
1. Assets and liabilities of the operating activity 2. Assets and liabilities of the investment activity	1. Revenue and costs of the operating activity 3. Revenue and costs of the investment activity	1. Cash flows from the operating activity 2. Cash flows from the investment activity
Financing activity	Financing activity	Financing activity
1. Financing assets 2. Financing liabilities	1. Revenues from the financing assets 2. Financing liabilities costs	1. Cash flows from the financing assets 2. Cash flows from the financing liabilities
Income tax	**Income tax from continued activity (economic and financing)**	**Income tax**
Discontinued activity	**Discontinued activity after the deduction of income tax**	**Discontinued activity**
	Other total revenues after the deduction of the income tax (costs and revenues remains recognised directly in equity	
The section of transactions of many categories		**The section of transactions of many categories**

Source: Staff Draft Of Exposure Draft IFRS X, Financial Statement Presentation, IASB London, 1 July 2010.

The section related to the economic activity (business) covers the assets and liabilities considered by the Board of the company as a part of the continued operating activity. The economic activity is held with the intention of creating the values through production and sales of goods (products) or providing services. In the economic section there are usually included the assets and liabilities resulting from transactions with the contractors and employees[12]. Within this section there were two categories selected:

- the operating activity, which covers the assets and liabilities considered by the Board of the entity as statutory in terms of the activity of the entity in the given industry,
- the investment activity, which covers the assets and liabilities considered by the Board of the entity as unrelated with the main objective of the entity functioning in the given industry.

The section related to the financing activity covers elements of the financing assets and liabilities that the Board of the entity considers as related to the financing of the activity of a given entity. The Board should include if a given element is replaceable with other positions used for financing of the activity. This section contains liabilities being the result of the entity's activity in terms of searching for the financing sources, and also the credits or issuance of securities.

If the entity is not able to assign unambiguously the element of the assets or liabilities to the operating, investment or financing activity, it should accept that the given elements refer to the operating activity[13].

The section on the income tax in the statement on the financial position at the end of the period includes all the assets and liabilities (reserves) related to both the current and deferred taxes. The deferred tax assets and reserves may be divided into long-term and short-term, according to classification of the assets and liabilities, which they refer to. The entity presents the flows connected with assets and liabilities in the section on income tax of the cash flows statement. In the statement on the total income, the entity includes profits and tax burden according to current principles. The entity may therefore present a part of the tax burden or profits within the discontinued activity and the costs and

[12] D. Krzywda, Biznesowa koncepcja sprawozdania finansowego w dobie kryzysu gospodarczego. [in:] Rachunkowość wobec kryzysu gospodarczego, B. Micherda (ed.), Difin, Warszawa 2010.
[13] Ibid., p. 63

revenues recognised directly to equity, instead of the separate income tax section corresponding with the balance and cash flows statement[14].

The section on discontinued activity covers only the assets and liabilities related to the discontinued activity, according to definition of this term included in the standards[15]. All changes to the assets and liabilities of the discontinued activity are presented in the same section of the statement on the total income and the statement on the cash flows[16].

The section on transactions of many categories covers mainly the positions that are compliant with the definition of the equity included in the standards, therefore usually the share capital and retained earnings[17]. The cash flows related to the equity should be presented in the same section of the statement on the cash flows, and all the changes in the equity caused by the transactions with the owners should be included in the statement of the changes in the equity, and the changes unrelated by the transactions to the owners should be presented in the statement on the total income[18].

The concept of the financial statement proposed by IASB and FASB is to guarantee the coherence of the particular elements in almost every line of the statement and provide more detailed information on the economic entity. Moreover, the particular positions of the statements shall complete one another, which allows the presentation of connections and correlations among the statements. According to the new concept the statement on total income of the period shall be prepared only in a calculative version, so it shall include the types of the activity and

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[14] J. Gierusz, Przebudowa sprawozdawczości finansowej - propozycje IASB i FASB. „Rachunkowość" Nr 7/2009, p. 46.

[15] The deferred activity is a part of economic entity that was disposed of or is qualified for the sale and:
• is a separate, significant field of the activity or a geographical activity area,
• is a part of a single, coordinated plan of disposal of a separate, significant field of the activity or a geographical activity area or
• is a subsidiary purchased (acquired) only with the intention of its resale.

[16] Ibid., p. 46.

[17] The retained earnings result from the division of net profit, earned in the entity in the given financial year, into the part paid to the owners and the part retained in order to invest in the development. It constitutes a difference between the net profit and the amount of the paid dividends.

[18] D. Krzywda, Biznesowa koncepcja sprawozdania finansowego w dobie kryzysu gospodarczego. [in:] Rachunkowość wobec kryzysu gospodarczego, B. Micherda (ed.), Difin, Warszawa 2010, p. 64.

particular costs generating centres. In the statement on the cash flows of the period all the flows shall be presented by the entity with the use of a direct method, which provides proper accuracy of the data for the assessment of the amounts, time horizon and degree of uncertainty of the future flows.

Furthermore, the "new" financial statements are to help the user with the assessment of the possibility of paying the liabilities by the entity on time and the evaluation of the investment opportunities in order to develop.

Conclusion

The ongoing globalisation processes and the increasing opening of the markets on an international scale resulted in the necessity for establishing the transnational accounting regulations, which are the International Accounting Standards and the International Financial Reporting Standards. They were created as a result of the long-term processes of harmonisation and standardisation of the accounting, and they are reflected in legal regulations.

This paper discussed the process related to establishing of the International Accounting Standards and the institutions that deal with the process of harmonisation and standardisation of the accounting on an international scale. Moreover, there was the Conceptual Framework of preparing and presenting financial statements and fundamental quality characteristics of the useful financial information included. There were also discussed the changes to the concept of preparing the financial statements elaborated by IASB and FASB and aimed at providing the transparency, comparability, coherence and as a result the credibility of the financial statements generated by the economic entities and being the basis of making strategic and operating decisions.

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