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The problems with comparability among financial statements prepared within Polish entities under IFRS

ABSTRACT

The aim of this paper is to analyse the comparability of headings included in the consolidated statements of profit or loss and other comprehensive income prepared under IFRS.

The study required the analysis of statements of profit or loss and other comprehensive income patterns ensured by Polish accounting regulations as well as IFRS propositions in this field. Moreover, it covered the analysis of structure and content of IFRS consolidated statements of profit or loss and other comprehensive income prepared for the 2005–2019 period by Polish listed companies.

The empirical study based on 477 consolidated statements of profit or loss and other comprehensive income showed that Polish entities use national patterns in IFRS reporting. Moreover, the results indicate that some entities were using the terms proposed by IFRS only in some years.

As the analysis showed, there are some factors that may diminish the comparability of financial statements prepared under IFRS. To protect users of financial statements from making wrong decisions based on the illusion of comparable IFRS statements, there is a further obligation for research on how comparable IFRS financial statements really are.

Bringing attention to comparability problems with IFRS financial statements may influence future regulators' approach in setting standards. This can enhance the quality of financial statements.

Keywords: financial statements comparability, IFRS, statement of profit or loss and other comprehensive income, expenses

JEL Classification: M41

Introduction

“The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity” [*Conceptual Framework...*, 2018, point 1.2, p. A19].

One of the most important goals of the International Financial Reporting Standards implementation in 2005 was reaching a higher comparability [Cole, Branson, Breesch, 2011, p. 106]. Indeed, several studies report that the adoption of IFRS has not only led to improving accounting quality [Barth, Landsman, Lang, 2008, p. 497] but has also enhanced and raised the comparability of financial reporting internationally [*Commission Staff...*, 2015, p. 34; FASB, 2014; Houque, 2018].

However, a number of factors might diminish the comparability of IFRS financial statements. Among them are national patterns used in IFRS statements as well as the optionality within IFRS that may undermine the benefits of IFRS as global accounting standards [cf. *Work Plan for the Consideration...*, pp. 10, 11]. As a result, the application of IFRS may differ within entities and among countries [Haller, Wehrfritz, 2013, p. 39].

This article analyses the comparability of the headings included in the consolidated statements of profit or loss and other comprehensive income prepared within Polish listed companies under IFRS and the impact of national accounting regulations on these statements. It concentrates on these statements and Polish entities for a number of reasons. Firstly, the form of presenting financial statements may impact the comparability of given information [cf. Łazarowicz, 2019, p. 150]. Secondly, the Polish rules on the statement of profit or loss and other comprehensive income are not completely consistent with IAS 1 and are more detailed. Thirdly, there is not much research on the headings presented in statements of profit or loss and other comprehensive income prepared by Polish listed companies under IFRS. Moreover, a large group of users of IFRS financial statements is not aware of the problems with comparability and thus they should be more informed about the issues which endanger the comparability of European financial statements prepared under IFRS [Cole et al., 2011, p. 123]. Finally, Poland belongs to the region of Central European countries, which is not satisfactory represented in the international literature about IFRS applications [Albu N., Albu C.N., 2014, p. 182].

Going through consolidated statements of profit or loss and other comprehensive income in Polish practice it occurred that there are some inconsistencies in the presented positions names. This paper is a continuation of the thought initiated by Krzywda, who drew attention to different headings included in statements of profit or loss and other comprehensive income under IFRS and Polish Accounting Act and comparability consequences connected with them [vide: Krzywda, 2018, pp. 19, 20, 21].

As such, this work contributes to the accounting literature that indicates the problems of IFRS European financial statements comparability as well as documents the maintenance of national accounting schemes in them.

The main aim of this paper is to examine if Polish listed entities continue national patterns in statements of profit or loss and other comprehensive income prepared under IFRS. The realisation of the given target required the use of deductive and inductive methods relating to the structure and content of this part of financial statement both at the regulatory and empirical level.

Literature review

“If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable” [*Conceptual Framework..*, 2018, point 2.4, p. A25].

Cole, Branson, and Breesch, basing on the survey of 426 individuals (including analysts and auditors), reveal that only 41% of the questioned believe that European financial statements prepared under IFRS are comparable. The outcomes show that the more experienced interviewees, the less they consider IFRS financial statements as comparable [2011, pp. 122, 123].

Zeff points out four factors that may impede the global comparability of financial reports; they include the business and financial culture, the accounting culture, the auditing culture, and the regulatory culture [Zeff, 2007, p. 291]. Shipper suggests that comparable reporting would be possible if cultural and legal differences within European Union jurisdictions could be overcome [cf. 2005, p. 122].

Zeff indicates the problems of language that may affect the proper IFRS comparability. It is about the accuracy of translations as well as the understanding of new concepts that have not been known in national cultures before but they have been translated into national languages within the IFRS translation process [2007, p. 296]. Aisbitt and Nobes, examining the implementation of a requirement given by the Fourth Directive, found that three out of four analysed countries departed from the accurate wording of the proper language versions of the analysed document [2001]. For some issues, different translations of regulations may cause different practices [Nobes, 2006, p. 237].

Moreover, the empirical research based on unrepresentative samples acknowledges that financial statements prepared according to IFRS maintain a visible national identity [Ernst&Young, 2006, p. 7; ICAEW, 2007, p. 7]. In 1988 it was underlined that accounting follows various patterns depending on the part of the world [Gray, 1988, p. 1]. A number of studies show that, in the harmonisation process, the national patterns have remained in the IFRS practice [vide i.a. Nobes, 2011, pp. 280, 281].

Basing on the policy choices of UK and German companies, Haller and Wehrfritz found that most of them, when choosing between IFRS options, tended to use accounting policies included in national rules [2013, p. 39]. Similarly, Kvaal and Nobes, analysing the financial statements prepared by Australian, UK, Spanish, French and German companies, indicated

the national patterns in the IFRS practice [2012, pp. 343, 344]. The SEC, which analysed the consolidated financial statements for 2009 prepared by 183 large companies (most of them were domiciled in the EU), also found that in many cases financial statements were prepared basing on national regulations [i.a. 2011, pp. 1, 4, 15].

The statement of profit or loss and other comprehensive income/account of profits and losses under IFRS and Polish accounting regulations

There are a number of differences between the statement of profit or loss and other comprehensive income prepared under international and Polish law. The comparison between them is presented in Table 1.

Table 1. Comparison between the statement of profit or loss and other comprehensive income under international and Polish law

	Category	IFRS	Polish law
1.	Name of the statement	Statement of profit or loss and other comprehensive income (proposed)	Account of profits and losses (obligatory)
2.	Content	Two parts: statement of (1) profit or loss and (2) other comprehensive income	No 'other comprehensive income' part
3.	Templates of this part of financial statement	No obligatory templates; proposed two formats included in IAS 1 and IFRS publications presenting expenses by nature or by function	Two templates defined by Polish accounting law presenting expenses by nature or by function
4.	Classification of Expenses	Includes Expenses classified by nature or by function, 'Other expenses', 'Finance costs' (proposed)	Includes Expenses classified by nature or by function, 'Other operating expenses', 'Finance costs' (obligatory)
5.	Definitions	No definitions of 'Other expenses', 'Finance costs'	Refers to definitions of 'Other operating expenses' (directly) and 'Finance costs' (indirectly)
6.	Presentation of the financial operations outcomes	No requirement to present them separately	Requirement to present them separately as 'Finance costs'
7.	Presentation	Classification by nature or by function may refer to all kinds of expenses An entity should take into account if an expense is connected with normal activities of the company	Classification by nature or by function may refer only to Expenses other than 'Finance costs', 'Other operating expenses' No such requirement

Source: own elaboration based on: *A Guide through...*, 2013, pp. B1107–1114; IAS 1, 2023, paras. 101, 102, 103; Krzywda, 2018; The Accounting Act of 29 September 1994, 2021, i.a. art. 3.1.32, art. 42.1, Appendix 1.

This analysis shows that Polish regulations on the statement of profit or loss and other comprehensive income are not entirely consistent with IAS 1 and are much more detailed.

No obligatory format of the statement of profit or loss and other comprehensive income under IFRS may lead to problems with comparability [cf. Nobes, 2006, p. 238]. Basing on the

IFRS financial statements of 25 entities from Asia, Europe, South America, and the Middle East it was found that both the structure and content of the statement(s) of profit or loss and other comprehensive income are different even within companies coming from the same industry [IASB, *Analysis of...*, 2016, pp. 1, 3].

Moreover, according to Polish accounting law, the outcomes of financial operations should be presented separately, whereas there is no such requirement according to IFRS. These may lead to differences in contents of expense positions while presented under IFRS and Polish accounting law.¹

Furthermore, according to IFRS, while classifying expenses an entity should take into account if a given expense is connected with the company's normal activities. There is no obligation like this according to Polish accounting law.

Finally, there is a difference in headings names included in proposed (by IFRS) and required (by Polish law) formats of the statement of profit or loss and other comprehensive income that refer to other costs. The Polish Accounting Act uses the 'Other operating expenses' term, whereas IFRS use 'Other expenses' heading.

Comparability

We say that something is comparable meaning it is exactly the same [vide: Crowther, Dignen, Lea, 2002, p. 139]. It is analogous [Fergusson, Manser, Pickering, 2000, p. 100]. "Compare suggests that one thing is like another in some significant way" [Hayakawa, 1981, p. 100]. If two things are comparable, they can be reasonably compared [cf. Sinclair, 2003, p. 277].

There is no much accounting-related literature that helps to understand what comparability really is. The view originated in the United States and quoted commonly is that comparability is ensuring that "like things look alike, and unlike things look different" [Zeff, 2007, p. 290 (after:) Trueblood, 1966, p. 189].

In financial statements comparing positions consist of selecting a specific name of a position and comparing the figures next to it to the figures placed next to the position with the same name included in the financial statement of a different year or of a different entity.

Comparability raises a user's ability to assess a company's outcomes against its competitors. It is possible thanks to better recognition of similarities and differences among companies [Imhof, Seavey, Watanabe, 2022, p. 115 (after:) *Financial Accounting...*, 2010]. As such, comparability should be provided at first glimpse.²

¹ This point surely requires further studies. Vide: Krzywda, 2018.

² A financial statement user should not be obliged to look into additional information to make sure if positions which are to be compared are comparable.

Data, hypotheses, methodology, results

The first sample used for the analysis of comparability of statements of profit or loss and other comprehensive income under IFRS in Poland includes companies listed on the Warsaw Stock Exchange. For the purpose of this study, banks, insurance and reinsurance entities, and foreign companies were excluded from the first sample. The analysis covered the IFRS consolidated statements of profit or loss and other comprehensive income for the 2005–2019 period. There were 37 entities whose shares were quoted on the Polish stock exchange at that time. The final sample consists of 32 companies and 477 statements of profit or loss and other comprehensive income.³ The data was hand-collected.

Given the outcomes of prior analyses on the impact of national regulations on IFRS financial statements and the specific regulations on the statement of profit or loss and other comprehensive income in Polish law, the following hypotheses were formulated:

H₁: The consolidated statements of profit or loss and other comprehensive income prepared within Polish listed entities under IFRS have national identity in terms of positions names.

H₂: There is a limited comparability of IFRS consolidated statements of profit or loss and other comprehensive income within Polish listed companies.

H_{2.1} In the consolidated statements of profit or loss and other comprehensive income the headings 'Other expenses'/'Other operating expenses' are presented alternatively, depending on the entity preparing the financial statements.

H_{2.2} In the consolidated statements of profit or loss and other comprehensive income the headings 'Other expenses'/'Other operating expenses' within the same entity may be presented alternatively depending on the year for which the financial statements are prepared.

To find evidence for H₁ and H₂, the author examined the headings of Expense related positions in consolidated statements of profit or loss and other comprehensive income, with an emphasis on the 'Other expenses' and 'Other operating expenses' position names. The impact of national rules on the financial reporting practices was investigated for this aspect, too.

Only 2 out of 32 of the analysed entities (6.25% of the total) used the term 'Other expenses' in their statements of profit or loss and other comprehensive income consistently every year in the whole examined period. It constituted 6.29% of the analysed statements (Table 2). This low number of companies that used consistently the heading proposed by IFRS during the analysed period of time shows a significant negative impact on comparability at the international level.⁴ Moreover, among all the examined 477 financial statements, the term 'Other expenses' occurred 57 times (11.95%), while in 420 cases (88.05%) a different heading was

³ It covers 15 statements for 29 entities, 14 statements for 2 entities (there was a one-year data gap), 14 statements for 1 entity (there were 14 statements prepared for 15 year period); 5 entities were totally excluded from the analysis because of data gaps for more than one year.

⁴ This is assuming that other European countries have used the terms proposed by IFRS. However, if not, the comparability is even lower.

used (Table 3). The above outcomes indicate that, apart from the two mentioned entities, there were also other companies using 'Other expenses' heading but only in some of the analysed years. This indicates an additional negative impact on the comparability of financial statements prepared by one entity within different years (Table 2 and Table 3).

Table 2. Percentage of entities using the 'Other expenses' term consistently in the 2005–2019 period versus other entities

Heading	Number of companies/number of financial statements		%	
Other expenses	2	30	6.25	6.29
Different heading	30	447	93.75	93.71
Total	32	477	100	100

Source: own elaboration based on the consolidated financial statements of all the studied companies.

Table 3. Percentage of statements of profit or loss and other comprehensive income including the 'Other expenses' term in 2005–2019 period versus other headings

Heading	Number of financial statements	%
Other expenses	57	11.95
Different heading	420	88.05
Total	477	100

Source: own elaboration based on the consolidated financial statements of all the studied companies.

Furthermore, the analysis of different than 'Other expenses' headings that were used shows that in 88.10% cases, there was the 'Other operating expenses' term included, whereas in 11.90% cases another heading was placed (Table 4). The rate of 88.10% is even higher as among 50 different headings there were terms equivalent to 'Other operating expenses' used (i.a. 'Expenses operating other', 'Other operating expenses net').

Referring to prior studies showing that the 'Other operating expenses' term is not only a category defined by the Polish Accounting Act but it is also a heading included in the obligatory format of the account of profits and losses ensured by this document, such an outcome (88.10%) indicates that national patterns are significantly continued in the IFRS practice.

Table 4. Percentage of other headings than 'Other expenses' used in financial statements

Heading	Number of financial statements	%
Other operating expenses	370	88.10
Different heading	50	11.90
Total	420	100

Source: own elaboration based on the consolidated financial statements of all the studied companies.

Table 5 presents the final conclusion on the presentation of particular headings in the analysed financial statements.

Table 5. Conclusion on the presented headings in financial statements

Heading	Number of financial statements	%
Other expenses	57	11.95
Other operating expenses	370	77.57
Different heading	50	10.48
Total	477	100

Source: own elaboration based on the consolidated financial statements of all the studied companies.

Summary

The obligatory use of IFRS for the consolidated financial statements of listed companies in the EU since 2005 was to diminish problems with comparability.

However, the application of the same standards does not mean that financial statements prepared according to them are entirely comparable. According to Ball, the belief that uniform standards will lead to uniform reporting seems to be naive [2006].

This study contributes to the IFRS reporting discussion considering whether Polish listed firms retain national accounting identity in financial statements prepared under IFRS.

Overall, the findings provide evidence that Polish entities maintain the national patterns in IFRS reporting. This conclusion is based on the analysis of the content and structure of consolidated statements of profit or loss and other comprehensive income referring to other costs-related positions.

The outcomes show that among 477 of the examined statements the term proposed by IFRS ('Other expenses') occurred only 57 times (11.95%), whereas the heading included in the obligatory Polish format of the account of profits and losses ('Other operating expenses') was used 370 times (88.05%). It fulfils the main target of the paper and confirms hypothesis H_1 . Moreover, the results show that some entities used the term proposed by IFRS only in some years.

All these influence the comparability of financial statements both within an entity over time as well as with the financial statements of other entities, also internationally, which confirms hypotheses H_2 (inc. $H_{2.1}$, $H_{2.2}$).

In the author's opinion, the positions names placed in an IFRS statement of profit or loss account and other comprehensive income should be uniformed. These may require an introduction of the obligatory format of this part of the financial statement under IFRS.

Further examination of the financial statements comparability should include the analysis of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format and its possible influence on financial statements scheme. According to this regulation, all numbers included in IFRS consolidated financial statements should be marked up. As such they should

be prepared in XHTML format using the Extensible Business Reporting Language (XBRL) [Commission Delegated Regulation (EU) 2019/815., i.a.: art. 3, art. 4.4; Annex II, para. 1].

To protect financial statements users from making mistaken decisions based on the impression of comparable IFRS statements, there is an indisputable further obligation for research on how comparable financial statements prepared under IFRS really are.

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