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DILEMAS OF FINANCIAL REPORTING AS THE RELIABLE INFORMATION SOURCE OF AN ENTITY PERFORMANCE RESULTS

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Abstract: The objective of the hereby paper is to indicate, on the one hand, the need for transformations in financial reporting as the basic source of information about the financial situation of an economic entity indispensable in the decision making process by its users, and on the other to provide the analysis of the adopted reporting reconstruction directions validity, as suggested by international financial community. On the basis of comments and reservations presented by practitioners and the analysis of research conducted by scientific circles the thesis is put forward by the Author that the suggested extension of information scope to be disclosed in obligatory financial reports proposed by the authorities responsible for the preparation of international accounting standards will not increase the usefulness of information they include and will not influence higher security of business transactions.

The paper is divided into three interrelated parts. The first presents the overview of critical opinions expressed by financial circles regarding accounting as the system generating information about the achievements of entities operating at the global market. The second refers to an entity stakeholders and their information needs. Irrespectively of opinions about the primacy of investors and their rights in making
investment decisions it is of great importance to meet the needs of the remaining interest groups by means of providing both reliable and useful information in financial statements. The final part of the paper presents an outline of undertaken and suggested restructuring directions in financial reporting proposed by IASB and FASB, as the institutions responsible for preparing international accounting standards. This part also discusses the selected suggestions by Polish researchers regarding the form and content of particular components included in a financial statement.

INTRODUCTION

The years of the 20th and the 21st century represent the period of strong development of globalisation processes, as well as the growth of capital markets and the expansion of international enterprises. The complexity of economic relations enhances uncertainty, which makes the future more and more unclear and accompanied by economic risks, also subject to globalization processes. The rapid pace of transformations still exacerbates problems in forecasting and making rational future prognoses. According to A. Kukliński (2008), the current situation “makes any forecasting impossible, however, indispensable. It seems unimaginable to perform any decision-making process hinc et munc without having some vision of the future”. Researchers, analysts and practitioners keep emphasizing negative consequences of the absence of long-term strategic visions. Decisions based on guessing or intuition may not result in any desirable or expected effect. In the conditions of knowledge based civilization more and more importance is associated with knowledge and information management, strongly emphasized in the studies by R. Simons (2005). Ownership relations also keep changing. T. L. Friedman (2006, p. 358) claims that as opposed to classical capitalism it is not the ownership of production means which is of decisive significance, but intellectual capital, while access to knowledge and information represent the key category. Information users expect it to be credible, useful and supportive for them in making due decisions. On the other hand, the extending time horizon of forecasts made requires credible and reliable data as their basis. Financial reporting represents the basic source of information about an entity results since it includes such components as balance sheet, profit and loss account, additional notes, cash-flow account and the statement of changes in equity. Nevertheless, in the opinion of economists the presentation of results created by accounting, even though reliable from the perspective of regulations in force, still “does not remain in close relation to real life economic practice and therefore turns out to be far from the reliable economic truth” (Mączyńska 2009, p. 51).

The objective of the hereby paper is to indicate, on the one hand, the need for changes in financial reporting as the basic source of information about an
economic entity financial situation, indispensable in the decision making process by its users, and on the other, provide the analysis of accepted financial reporting reconstruction directions correctness, as suggested by international bodies.

Based on the comments and objections submitted by practitioners, as well as the analysis of the conducted research in academic circles a thesis is put forward by the Author of the hereby paper that the suggested extension of information scope disclosed in the obligatory financial statements, as suggested by the international accounting standards creating bodies, will not increase the usefulness of information they include and will also not improve the safety of economic turnover.

CRITICISM OF ACCOUNTING AS THE SYSTEM OF INFORMATION ABOUT AN ENTITY RESULTS AND ITS CONDITION

The conducted empirical research and professional literature are full of critical remarks regarding accounting as the systems which reflects both an enterprise financial result and its overall condition. It is questioned, among other things, that financial statements created by enterprises on the grounds of contemporary accounting, sometimes based on unclear rules, e.g. in relation to disclosure or balance valuation, become more and more complicated and in consequence insufficiently transparent\(^1\). Such situation, in the opinion of J. Stiglitz (2006, p. 137) the Nobel Prize winner in economics, facilitates all kinds of accounting manipulations showing symptoms of “artistry”. In the conditions of accounting regulations in force, accountants do have very extensive possibilities for influencing their company accounting image in the form of financial statements they prepare\(^2\). A similar standpoint is presented by A. Kamela-Sowińska (2007, p. 146) who claims that using such adjectives as “true and reliable reflection” of an entity presented in financial statements may in fact be “deceptive and misleading”. Also John Bogle (2008, p. 38) the founder of The Vanguard Group investment fund pays attention to high level of complexity in accounting. In his opinion it is even the specialists in accounting who have a problem with both interpreting and understanding economic content of some balance law regulations. Such situ-

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\(^1\) Currently supranational regulations function globally, e.g. US GAAP and International Financial Reporting Standards, as well as national regulations and standards. The quality which characterizes international regulations in relation to accounting and financial reporting is their changeability, which may also adversely influence the quality of statements prepared on their basis – for more see e.g. Zuchewicz (2010b, pp. 366–374).

\(^2\) It was also discussed by Mączyńska (2007).
ation, beyond any doubt, was influenced by the process of creating new financial market products, among others, piggybacking which seems beyond comprehension even for supervisory authorities. The increasing abundance, complexity and changeability of accounting regulations facilitates the desirable image creation by enterprises. A similar opinion is quoted by Z. Luty (2010a, p. 43), who indicates that “legal regulations in accounting do not follow all the new platforms in business relations being created, while the level of such relations complexity established a significant barrier in understanding them and in interpreting accounting records and statements”. Attention is also paid to “doubts about the quality of disclosed financial information and especially to the possibility of interpreting the created virtual values” as the consequence of the above factors influence. Additionally, Z. Luty warns that “the world of virtual values has to be separated from that of actual values”.

Accounting principles allow for an extensive freedom in choosing accounting policy and in creating a subjective balance sheet image of an entity. In line with solutions accepted by an enterprise within the framework of accounting policy, entities are capable of creating values of particular items in their statements, influence their financial result and balance sheet structure, especially in the sphere of short-term and long-term investments.

The changing economic reality, resulting both from globalization processes and the ongoing financial crisis, brought about fierce criticism of accounting as the source of information about the situation related to company assets and finances. The most important issues may be presented as follows:
- absence of information in financial statements about intangible factors, in knowledge based economy, such as intellectual property, internal goodwill, client relations, location related assets, marketable assets, etc.,
- a controversial method of an entity assets valuation and its origin sources mainly based on historical values resulting in a growing gap between the balance sheet value and the marketable value of the assets,
- over extensive creativity of different components presentation in financial statements,
- no cohesion regarding information presented in particular financial statement components and insufficient data disaggregation,
- insufficient awareness presented by individuals responsible for accounting policy regarding consequences of the accepted solutions.

The presented situation may result in falsifying the actual goodwill of an enterprise, its assets and an overall financial result. Depending on the accepted solutions, in line with balance law in force, the condition of an entity, as suggested in a financial statement, may in fact be better or worse than the

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3 More in e.g. Zuchewicz (2011, pp. 337–349).
real one. Having the above in mind, one may start considering whether the presently issued financial statements meet all the needs of their current users (stakeholders).

**STAKEHOLDERS OF THE REPORTED INFORMATION AND THEIR INFORMATION NEEDS**

In professional literature, stakeholders are defined as units or groups which are capable of influencing organizational activities or are influenced by activities undertaken by an organization. Company stakeholders may be analyzed by means of studying the nature of relations occurring between them and an organization (e.g. Marcinkowska 2011, pp. 859–862).

Financial reporting users (stakeholders), in the project presenting “Conceptual framework” (Statement, 2010), prepared by the two most powerful institutions dealing with standardization within the framework of American standards (US GAAP) convergence process with International Financial Reporting Standards (IFRS) i.e. the European International Accounting Standards Board (IASB) and American Financial Accounting Standards Board (FASB), are represented by capital providers for an entity in exchange for claims towards its assets.

In the project of financial reporting conceptual framework its is the current and potential capital investors (shareholders), lenders and other creditors (workers, suppliers, clients and other groups of users), who constitute the major group of financial statements users, irrespective of how they accessed their claims (the right for claiming entity assets). They are also referred to as capital providers and claimants. Capital providers, while taking up decisions regarding their capital investment in a given unit and the method for investment protecting or extending, are interested in the following information:

– the assessment of an entity ability to generate positive net cash flow,
– company Board’s ability to protect and extend their investment.

It was emphasized in the study, which in the future will be obligatory in many countries worldwide, that information meeting the needs of capital providers will also turn out useful for other groups interested in financial results of a given entity. Conceptual framework, as a concise system, by indicating the direction for accounting and financial reporting development, is supposed to be useful for public interest by improving the provision of impartial and objective financial information.

In general, financial statement users are divided into two groups: internal and external users (Table 1).
Table 1. Financial statements users

<table>
<thead>
<tr>
<th>Group of users</th>
<th>Financial statement users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal</td>
<td>Company Board</td>
</tr>
<tr>
<td></td>
<td>Accounting Department</td>
</tr>
<tr>
<td></td>
<td>Trade Unions (workers)</td>
</tr>
<tr>
<td>External</td>
<td>Capital providers</td>
</tr>
<tr>
<td></td>
<td>Banks</td>
</tr>
<tr>
<td></td>
<td>Contractors</td>
</tr>
<tr>
<td></td>
<td>Clients</td>
</tr>
<tr>
<td></td>
<td>Government agencies</td>
</tr>
<tr>
<td></td>
<td>Supra-national institutions</td>
</tr>
<tr>
<td></td>
<td>Investors</td>
</tr>
<tr>
<td></td>
<td>External enterprises</td>
</tr>
<tr>
<td></td>
<td>Tax authorities</td>
</tr>
<tr>
<td></td>
<td>Society</td>
</tr>
<tr>
<td></td>
<td>Rating companies</td>
</tr>
</tbody>
</table>

Source: Author’s compilation based on Luty (2010b, p. 128).

The basic group of stakeholders includes owners and investors and also these entities which exert strong influence on an entity such as the State, its agendas and capital providers. In the broadest classification of stakeholders groups, influencing corporate operations, the following stakeholders are distinguished: primary and secondary as well as social and outside social ones (table 2).

Table 2. Classification of stakeholders’ groups

<table>
<thead>
<tr>
<th>Groups of stakeholders</th>
<th>Social</th>
<th>Outside social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>Local, national, international communities</td>
<td>Future generations</td>
</tr>
<tr>
<td></td>
<td>Suppliers and business partners</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Clients</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Workers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lenders (banks, bondholders, etc.)</td>
<td></td>
</tr>
<tr>
<td>Secondary</td>
<td>Government</td>
<td>Environmental pressure groups</td>
</tr>
<tr>
<td></td>
<td>Society</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Market regulators and supervisors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Commercial organizations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competitors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social pressure groups</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trade Unions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Media and commentators</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Opinion leaders, research and scientific centres</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-governmental institutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Environmental organizations</td>
<td></td>
</tr>
</tbody>
</table>

Information needs of users presented in table 1 and 2 are diversified by type and form of relations with the reporting entity and change in line with transformations occurring at the global market. Financial statements, beyond any doubt, allow to assess:

- by investors – profitability of capital investments, an entity functioning efficiency, its developmental strategies and the level of risk resulting from making capital investments in a given entity,
- by lenders – an entity’s creditworthiness,
- by contractors – paying capacity and creditworthiness when granting a trade credit, risk assessment while making decisions about business cooperation,
- by other enterprises – the situation regarding assets, finances and paying capacity when making decisions about common projects, cooperation, take over or merger,
- by tax authorities – accuracy and timeliness in meeting current and future tax obligation by an entity,
- by the government and its agendas – development directions and functioning efficiency,
- by the society – opportunities for employment and local entrepreneurship support,
- by an entity management – level of the assigned tasks (strategies) implementation, background for analytical studies, early warning signals, identification of performance risk areas, assets liquidity, income, costs and expenditure sources, as well as the situation on the competitive market in the environment of risk and uncertainty,
- by the majority of interest groups – an entity operations continuation, its profitability and solvency.

In the context of the above presented information, in the Author’s opinion, the hierarchy of financial statement users ranking, as prepared by IASB and FASB, in which both current and potential capital investors are ranked at the top of the list does not seem to be correct. An investor, as the capital owner, is an extremely important user of financial statements, however, not the only one. Enterprises which prepare financial statements and at the same time operate at the global market should respect the needs of all interested parties and refer to them in an equally responsible manner.

Dziawgo (2011a) in her research regarding the range of Polish investors financial information needs, performed in order to provide an assessment of the suggested by IASB and FASB financial reporting transformations, divided stakeholders into four groups: Polish society (representative group), individual investors, stock exchange analysts and stock exchange listed companies. The latter three groups expressed their opinions regarding their accounting oriented expectations and the generated financial statements:
1) Individual investors expect companies to provide the following information:
   - plans for the future and long-term forecasts,
   - faster publication of results,
   - current situation also including the market oriented one,
   - planned and obtained profit,
   - changes in investment plans and in liquidity.

2) Stock exchange analysts require information about:
   - forecasts,
   - sales volume at the background of an overall sector,
   - sales and profitability presented by segments and also geographically,
   - data which have direct influence on the obtained financial result.

3) The observation of stock exchange listed companies provides information that investors require as follows:
   - increased transparency,
   - less historical and more future oriented data,
   - explicit financial data,
   - more emphasis on information quality and taking due responsibility for it,
   - more frequent explanations of the presented financial results.

The research conducted by D. Dziawgo indicates that investors keep requesting more transparent and explicit form of current financial data and also emphasize the need for presenting information referring to the future. They also pay attention to financial statements quality and responsibility for information they provide.

Financial factors which, according to respondents, are important in undertaking investment decisions (referring to shares purchase) are also interesting (Dziawgo 2011b, p. 90). Table 3 presents the most important financial factors in the assessment of Polish society (aged 15–75) and individual investors.

The results of research conducted by D. Dziawgo illustrate that the group of individual investors, in the process of taking up investment decisions, ranked technical analysis as the most important, with share price and fundamental analysis taking subsequent positions. Places further down the list were taken by financial results and financial reporting to which representative group did not pay any attention at all.
Table 3. The most important financial factors in the assessment of Polish society and individual investors taken into consideration while purchasing shares

<table>
<thead>
<tr>
<th>Financial factors</th>
<th>Individual investors – target sample – number of points</th>
<th>Polish society – representative sample – number of points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical analysis</td>
<td>214</td>
<td>76</td>
</tr>
<tr>
<td>Market share price</td>
<td>175</td>
<td>149</td>
</tr>
<tr>
<td>Fundamental analysis (including financial ratios)</td>
<td>160</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>84</td>
<td>34</td>
</tr>
<tr>
<td>Financial results / profits</td>
<td>97</td>
<td>117</td>
</tr>
<tr>
<td>Financial statement</td>
<td>79</td>
<td>0</td>
</tr>
<tr>
<td>Rate growth potential</td>
<td>70</td>
<td>21</td>
</tr>
<tr>
<td>Financial condition</td>
<td>69</td>
<td>123</td>
</tr>
<tr>
<td>Shares liquidity</td>
<td>46</td>
<td>13</td>
</tr>
<tr>
<td>Planned investments</td>
<td>37</td>
<td>4</td>
</tr>
<tr>
<td>Planned profit</td>
<td>27</td>
<td>0</td>
</tr>
<tr>
<td>Goodwill</td>
<td>24</td>
<td>10</td>
</tr>
<tr>
<td>Revenues</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Financial resources/Cash flow</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>Equity</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Dividend payout</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Assets and its components</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Stability and development potential</td>
<td>0</td>
<td>84</td>
</tr>
</tbody>
</table>

The following scoring was accepted: 3 points for indicating as 1st place, 2 points for 2nd place and 1 point for 3rd place.

Source: author’s compilation based on Dziawgo (2011b, pp. 90–91).

Experts representing CIMA and PriceWaterhouseCoopers (CIMA/PWC) the audit- consultancy company published, in 2007 (Online Reporting) studies on stakeholders’ expectations regarding electronic version of financial statements⁴. Basing on the presented results, it is possible to express the expectations of the studied groups of stakeholders regarding the usefulness of financial statements, which mainly refer to the following:

– presentation of statements in an interesting form,
– facilitated understanding of the most important information,
– an opportunity to look at a financial statement from the perspective of managing staff,
– better understanding of what is considered important by the Board,
– hierarchical presentation of data from accounting system which recognizes the most relevant and aggregate data first and next the detailed information,

⁴ See more in e.g. Michalak (2010, pp. 69–94).
access to historical data covering longer periods of time than just the previous year comparative data.

In the context of the above research, once more the thesis put forward by a large group of specialists in accounting has been confirmed, namely that statements should present the basic set of standard data as well as additional information adjusted to the needs of their particular recipients.

Cyert and Ijiry (1974) distinguished three groups of stakeholders involved in the process of financial statements preparation:

– accounting experts (accountants, auditors),
– users,
– corporations.

In their opinion these groups exert crucial influence on nature and scope of changes, both suggested and introduced in accounting. The conflict between these groups arises when proposals have a different influence on different interest groups.

UNDE RTAKEN AND SUGGESTED DIRECTIONS OF CHANGES IN FINANCIAL REPORTING

International Accounting Standards Board (IASB) in cooperation with FASB, having in mind the expectations of financial statement users, changed IAS 1 *Presentation of financial statements* (International Standard 2008) and introduced comprehensive income statement prepared in two possible variants starting from January 2009. The first assumes preparing one statement but additionally including components of other comprehensive income, i.e. other than revenues and costs presented in the financial result of the reported period. According to the second variant entities are allowed to prepare two separate statements referring to an entity’s performance – profit and loss account and a comprehensive income statement starting from net profit/loss in the reported period. The objective underlying the introduced changes was to improve the usefulness of presented information for the sake of better understanding of corporate operations results.

Walińska and Bek-Gaik (2001, pp. 325–340) analyzed selected companies listed at Warsaw Stock Exchange and solutions adopted by Polish enterprises. The conducted research shows highly diversified structure of comprehensive income statement, both in the number of items and their name. In the opinion of the above Authors “economic practice does not pay too much attention to such statement, but just refers to it as still another form of obligatory data disclosure prepared in an accounting system without paying too much attention to their transparency and clarity for potential users”.


In summary of the discussion presented in the above part of the paper, an obvious conclusion may be drawn: changes have to be comprehensible for all global market participants, they should by all means be respected and referred to in a responsible manner. Otherwise none of the new solutions will result in the effects both desirable and expected by a wide group of stakeholders.

The presentation of the remaining overall result in a financial statement, in line with IAS 1 according to A. Szychta’s opinion (2010, p. 132), may cause interpretation problems for many users of such statement and “in consequence make full understanding of corporate financial performance difficult”. As the result of extensive consultation with comprehensive income financial statements users and those responsible for preparing them, the International Accounting Standards Board itself admitted that the requirements presented in IAS 1 were not based on a sufficiently cohesive basis. Both Boards, IASB and FASB, within the framework of the already mentioned convergence process covering IFRS and US GAAP want to introduce adequate changes following which in both IAS 1 and US SFAS 130 Comprehensive income statement, the presentation of other comprehensive income was the same in a financial statement prepared by a company applying IFRS (starting from January 2012) as in the case of a company using US GAAP for its results presentation (starting from 15 December 2011) (Presentation 2010). The purpose of modifications suggested by both Boards, to be introduced in other comprehensive income (OCI) presentation, is to provide higher transparency of comprehensive income components to help financial statement stakeholders understand better all changes in equity, other than these resulting from an entity transactions with its owners (Szychta, 2010, p. 134). Such solution may become helpful in evaluating and estimating effects which OCI may have on net profit or loss.

Other new solutions in IAS 1 (International Standard 2011) refer to changes in statement structure “Presentation of changes in equity”. All the other changes in force since 2009 refer mainly to terms used for financial settlements components so far, which was criticized by the financial environment. The initiated at supranational scale activities, aimed at eliminating the accounting system defects, disclosed among others by the global crisis, were defined as just superficial operations “taking the form of frequently unnecessary changes in nomenclature” (Maćzyńska 2009, p. 57).

The result of efforts undertaken by IASB and FASB in 2001, in cooperation with numerous advisory groups, is visible in the form of new financial statement formula proposal (Discussion Paper) which introduces a different from the so far applied approach to an entity. It is not an entity as such, but

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5 An entity applies these changes in relation to annual reporting periods starting from 01 January 2011 and later.
its particular operations which are supposed to become the desirable information with reference to certain financial statement components. Financial statement’s components, such as financial position statement, comprehensive income statement or cash flow statement were supplemented by the presentation of information regarding the following types of operations:

– economic – operational activities,
– financing activities,
– discontinued activities,
– income tax and
– company equity.

The suggested changes are supposed to result in accomplishing the basic, according to project Authors, goal of financial reporting, namely offer capital providers and investors all information facilitating the assessment of due amounts, time horizon and uncertainty referring to future cash flow.

The solutions suggested by IASB and FASB were referred to by accounting professionals as revolutionary. However, scientific circles were divided into supporters and opponents of proposals offered in the project and mainly their practical usefulness.

Walińska (2010, p. 268) expressed an opinion that the balance sheet form, suggested by both of the above authorities, is insufficiently transparent for financial statement users. Therefore, she suggested another balance sheet form in a generically – functional arrangement, in which management oriented perspective was accepted allowing for such balance sheet information identification which is indispensable in the assessment, among others, of company liquidity, liabilities, current operations, investments and forms of financing them. In E. Walińska’s opinion, such an approach should result in better communication of information referring to company financial position and its statement better transparency. And, according to the hereby paper’s Author, it should also improve its usefulness in undertaking crucial business decisions and preparing forecasts.

On the other hand, J. Gierusz (2010a, p. 195) suggested an extension of traditional classification covering costs and losses, as well as revenues and profits for the needs of financial reporting. The extension directions suggested by this Author are presented in Table 4.


Table 4. Directions of costs and losses as well as revenues and profits for the needs of financial reporting by Gierusz

<table>
<thead>
<tr>
<th>Classification criterion</th>
<th>Distinguished groups of costs and losses</th>
<th>Distinguished groups of revenues and profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction repeatability</td>
<td>Costs and losses</td>
<td>Revenues and profits</td>
</tr>
<tr>
<td>Sources of incurring / deriving</td>
<td>Costs and losses entered directly at profit and loss account, capitalized costs, capital costs and losses</td>
<td>Revenues and profits entered directly at profit and loss account, deferred revenues, capital revenues and profits</td>
</tr>
<tr>
<td>Sources of incurring / deriving</td>
<td>Primary costs and losses, public law costs, costs and losses, costs and losses calculated in accordance with balance law</td>
<td>Primary revenues and profits, public law revenues, revenues and costs calculated in accordance with balance law</td>
</tr>
<tr>
<td>Assurance of incurring / deriving</td>
<td>Costs and losses incurred, implicit costs, reversible costs</td>
<td>Revenues and profits derived, implicit revenues, reversible revenues</td>
</tr>
<tr>
<td>Measurement precision</td>
<td>Costs and losses precisely measured, estimated costs</td>
<td>Revenues and profits precisely measured, estimated revenues</td>
</tr>
<tr>
<td>Accrued moment</td>
<td>Costs and losses of objectively defined accrued moment, costs of subjectively selected accrued moment</td>
<td>Revenues and profits of objectively defined accrued moment, revenues of subjectively selected accrued moment</td>
</tr>
</tbody>
</table>

Source: author’s compilation based on Gierusz (2010a, pp. 196–197).

Due to the fact that an investor, as the main recipient of information presented in financial statement, having analyzed profit and loss account, will not find answers to an important question, i.e. what is the unit’s capacity for generating profit in subsequent reporting periods, besides this statement also includes the results of one-time transactions and part of the financial outcome results from operations imposed by balance law regulations, and also, due to the fact that an increasing number of costs and revenues directly influences the size of equity capital disregarding the profit and loss account, a radical reconstruction of this account was suggested by Gierusz. The Author created a new formula for this statement by resigning from presenting results of particular types of activities (basic operational, other operational, financial) for the sake of presenting results of diversified repeatability level and realization assurance. Such formula, in the Author’s opinion, should serve the purpose of meeting the needs of financial statements addressees much better and as the result provide more useful information.

Additionally, Gierusz (2010b, pp. 49–58) evaluated the financial statement draft prepared by ISAB and FASB and pointed out as many of its advantages as disadvantages. His opinion about the concept of financial result measurement and presentation in comprehensive income statement, follow-
ing financial reporting model suggested by IASB and FASB, is more favourable (Gierusz 2010c, pp. 19–32). The Author considers the following factors to be an advantage: the correctly defined financial statement scope, objective and users, consistency of particular components which results in an original, logical model allowing for the comparison of particular financial categories, both in time and in space.

However, ISAB/FASB proposal does not implement the decisions made at the International Accounting Standards Board meeting held in 2009 and suggesting that financial statements may include information of prospective nature, i.e. data referring to future operations estimation (IASCF 2009, p. 1). In the opinion of the Author of hereby paper, it is worth concentrating on prognostic usefulness of information generated by the suggested financial reporting concept. Gierusz (2011, p. 121) proposed a comprehensive income statement form, allowing for the analysis of both financial result quality and the analysis of categories it includes in time. However, the final usefulness of suggested solution is to be decided by empirical research and practical tests with a broad spectrum of stakeholders involved – the recipients of financial statements information.

Research conducted by Dziawgo (2011b, p. 94) and referring to suggestions postulated by the financial community covering domestic and foreign institutional investors, small individual investors, market analysts and the media indicate clearly that they do not expect revolutionary transformations in the currently applied financial reporting system. Financial community, as the market participant, mainly expects the following:

1) more detailed key items (selected statement items on request),
2) broader context of presented data at the background of:
   – global situation,
   – national and international competition,
   – economic situation,
3) responsibility for data reliability and their ethical presentation,
4) faster publication of financial statements also in electronic version at company websites.

In the context of the above discussion the grounds for preparing financial reporting proposal by IASB and FASB, in order to improve and extend its usefulness for investors, seems questionable. A conclusion may be drawn that the detailed analysis of the most important, in the opinion of both Boards, stakeholders group was not carried out at all.

Fair value, which was responsible for shrinking the gap between balance sheet value of assets and their market value, also did not find due reflection in the form and content of a financial statement. The dilemma of valuation in
accounting was discussed by many outstanding professionals\(^6\). Scientific community also puts forward different concepts regarding the categories which should constitute valuation basis in an accounting system. The confirmation of all these problems importance is included in the opinion by the former IASB President Sir David Tweedie (Karmańska 2007, p. 128): “there are few advocates of returning to historical cost. Also just a few speak in favour of fair value valuation. The majority are for a compromise solution”. On the other hand, T. Eccles and A. Holt (2005, p. 382) claim that in the conditions of risk and uncertainty the usefulness of information seems crucial (even more important than the credible reflection of the described reality) and, despite the fact that in case of company market value absence, the fair value is estimated based on subjective opinions and even if it is not necessarily fully credible, its usefulness should allow for fair value implementation. In April 2007 IASB and FASB Boards suggested the following valuation basis (Kędzior, Grabiński 2011, p. 73):

- historical (past) input price,
- historical (past) output price,
- modified historical price,
- current input prices,
- current output price,
- current equilibrium price,
- value in use,
- future input price,
- future output price.

At the meeting in July 2010 (Conceptual Framework Project) both Boards decided that while choosing valuation basis entities should consider primary quality characteristics of useful financial information\(^7\), as well as economic information and also have in mind future cash flows following costs-benefit criterion. However, while analyzing the IASB/FASB Conceptual Framework Project, referring to valuation and covering only very general information, it may be concluded that its final version presentation requires both Boards to put much more hard work into the problem. Additionally, according to the Author of hereby paper, offering a choice in accounting valuation, suggested by both above mentioned institutions, will reduce comparability of financial statements and, in consequence, their usefulness in making decisions not only by investors, but also by other international market participants.

The proposal of financial reporting model prepared by IASB and FASB, in knowledge based economy, in the situation when intellectual capital con-

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\(^6\) For more see e.g. Gierusz (2011, pp. 111–122).

\(^7\) For more see e.g. Zuchewicz (2010b, pp. 494–501).
substitutes the background for national economic development and its influence on companies’ goodwill is an unquestionable factor, does not offer the possibility of presenting comprehensive information about company intangible assets in financial statements (e.g. such as knowledge and skills, brand and recognition, organizational capital, relations with clients). Such an approach results in extensive differences between entities valuation performed by their management or the market and their value generated by an accounting system. According to managers, intangible assets are extremely important from the perspective of e.g. winning competitive advantage and obtaining economic success at the global market.

The hereby study does not list all comments and the Author’s remarks regarding the form and content of particular financial statement components, but is supposed to indicate the shortcomings of the suggested solutions and the lower than expected level of meeting information oriented needs expressed by investors or even still lower, as it seems, voiced by other groups of stakeholders.

CONCLUSIONS

Accounting is subject to pressure from capital market dynamic development, financial innovation and globalization processes. Supranational enterprises exert powerful influence on accounting regulations and standards. Large margin of freedom in making choices ingrained in the existing standards results in extensive subjectivism of reports about the financial situation of economic entities in the conditions of real life business practice. Stakeholders represent a major group of financial statements users. Information generated by accounting system is valuable for stakeholders if, on its basis, they are capable of undertaking correct decisions. Information usefulness is conditioned by such qualities as its prognostic and confirming value. Therefore, changing balance law, which by all means has to be effective, seems indispensable and unquestionable. However, in the context of problems discussed in the hereby paper, it seems that meeting the needs of capital providers exclusively, regardless of other involved parties’ interests, is definitely insufficient. Financial statements are supposed to inform their addressees about a given entity’s situation. For this reason the following is absolutely necessary:

– regulatory clarity and transparency,
– reliable financial statements meeting expectation of a larger group of stakeholders rather than just investors.

In view of the above, it seems questionable whether the reconstruction of reporting suggested by IASB and FASB can become beneficial for financial
statement users and for the general business practice. The discussion presented in the study, in the Author’s opinion, does confirm the thesis put forward in its introduction.

Another dilemma refers to the question whether financial reporting should be prepared from the perspective of an entity or its owners. Both bodies, IASB and FASB, decided that accounting system should be prepared from an entity’s perspective, mainly due to the needs of many different financial statement users, which seems fully founded. However on the one hand, following the opinion of accounting practitioners, standards are prepared to meet the needs of investors which, on the other hand, is confirmed by empirical studies performed by researchers.

In summary, the opinions expressed by F. Alali and L. Cao (2010, p. 85) should be quoted, according to which, in the end, the quality of financial reporting depends not only on standards as such, but also on a given entity business model and structure, on cultural, legal, political determinants, as well as the influence of market institutions in the environment in which an entity conducts business operations. Such situation, for obvious reasons, is far from favourable for the broad spectrum of financial statements users since it may result in presenting false financial result and improper image of economic entities. What does future hold for global accounting standards then? Initiating cooperation between the two largest Boards, IASB and FASB, is extremely valuable especially in the situation when current solutions are not adjusted to current requirement put before financial reporting. However, is it possible for regulations to keep up with business practice? There are many question marks and uncertainties, but stakeholders’ needs are very substantive and the direction of suggested changes does not seem to meet their expectations.

**LITERATURE**


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