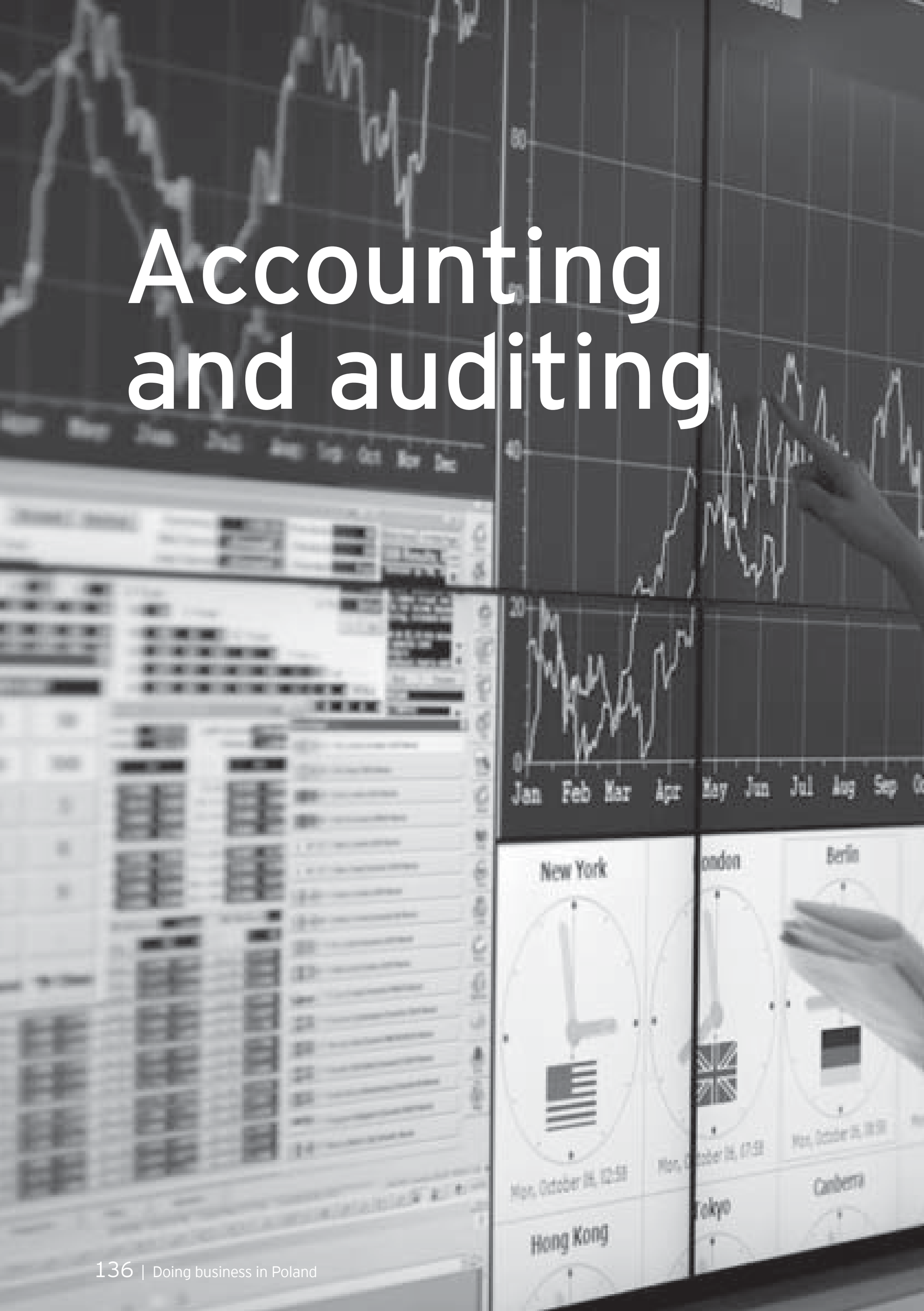

Accounting and auditing

7.1. Introduction to the accounting framework in Poland

Polish accounting is regulated by the Accounting Act of 29 September 1994 (the Accounting Act). The Minister of Finance has also issued several regulations which cover specific accounting areas such as financial instruments, consolidation, accounting principles for banks, insurance companies, investment funds and pension funds. Since 1994, the Accounting Act has undergone significant changes to bring Polish accounting regulations closer to the International Financial Reporting Standards (IFRS). However, the differences between the Accounting Act and IFRS, mainly following IFRS developments in last decade, continue to exist as noted in Section 7.7 below. The following information applies to financial statements prepared for the periods beginning on or after 1 January 2017.

In order to help implement the Accounting Act, the Polish Accounting Standards Committee ('the Committee') prepares and issues National Accounting Standards (KSR). As at 1 January 2017, ten National Accounting Standards had been issued in regard to different topics including cash flow statement, leasing, impairment of assets, concession accounting, recognition and presentation of changes in accounting policy, estimates, and correction of errors and post balance sheet events.

The Committee has also issued several position papers (not referred to as standards) in regard to e.g. accounting for emission rights, inventory count, inventory valuation, green certificates, financial statements of housing cooperatives and some aspects of bookkeeping. In the areas not regulated by the Accounting Act or National Accounting Standards, reference may be made to IFRSs. National Accounting Standards and the Committee's position papers are available on the website of the Ministry of Finance.

The Accounting Act permits or requires some Polish entities to apply IFRS as adopted by the EU as their primary basis of accounting, rather than applying the accounting principles of the Accounting Act. Those regulations are summarised in the following table:

	Standalone financial statements	**Consolidated financial statements**
1. Entities listed on a regulated market in Poland or other European Economic Area (EEA) country.	Choice	Required
2. Banks (other than those included in 1, 3, 4 and 5).	Not permitted	Required
3. Entities that applied for a permission to list on regulated market in Poland or other European Economic Area (EEA) country.	Choice	Choice
4. Entities that are part of a group where the parent prepares consolidated financial statements for statutory purposes in accordance with IFRS as adopted by EU.	Choice	Choice
5. Branches of a foreign entrepreneurs that prepare separate financial statements for statutory purposes in accordance with IFRS as adopted by EU.	Choice	n/a
6. Other entities.	Not permitted	Not permitted

7.2. Accounting records

The provisions of the Accounting Act and related regulations are applicable to, among others, companies and partnerships that have their registered office or place of management in Poland. For those entities that apply IFRS as the primary basis of accounting instead of Polish principles, the following sections of the Accounting Act still apply:

- Chapter 2 on bookkeeping
- Chapter 3 on inventory count
- Chapter 6A on report on payments made to government
- Chapter 7 on auditing, filing with the appropriate court register, providing access to and publication of financial statements
- Chapter 8 on data protection
- Chapter 9 on criminal liability
- Chapter 10 on special and interim provisions and
- Article 49 in regard to directors' report.

Each entity is obliged to maintain its accounting books and other documentation which, in particular, comprises:

- A description of the entity's accounting principles
- Rules for keeping subsidiary ledgers and their link to general ledger accounts.

Accounting records should be kept, and financial statements drawn up, in the Polish language and presented in the Polish currency.

It should be noted that the violation of the Accounting Act requirements by a person responsible for drawing up the financial statements (usually the Management Board and Supervisory Board) may be recognised as a criminal offence, which is punishable by imprisonment for a term not exceeding two years, by a fine, or both.

The regulations, summarised in Chapters 7.3.- 7.7 below, apply to all entities in general. Certain types of entities such as banks, insurers, or investments funds might be governed by specific regulations in relation to the measurement and impairment of assets (such as financial instruments) or financial statements. Furthermore, there are exemptions and simplifications provided for small and micro entities which are explained in Chapter 7.8.

7.3. Major principles in regard to recognition and measurement of assets and liabilities

The Accounting Act requires companies to recognise and present the transactions in the financial statements, in accordance with their economic substance.

Entities may elect to depart from a regulation of the Accounting Act, and adopt its own accounting policy, if that regulation results in presentation of the financial position and performance not being true and fair. The justification for such departure and its impact on the financial information should be disclosed.

An asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the company.

Intangible assets

Intangible assets are recorded initially at their purchase price and then are amortised over their useful lives or written down for impairment. The goodwill and development costs shall be amortized over their economic useful life or, when the economic life cannot be reliably determined, over the period not exceeding 5 years.

Property, plant and equipment

Items of property, plant and equipment are measured at acquisition or production cost, less accumulated depreciation and impairment. Land is measured at acquisition cost less impairment.

Tangible assets may be revalued in accordance with separate regulations. However, the last revaluation was allowed on 1 January 1995, based on a decree issued by the Ministry of Finance.

The result of revaluation of a fixed asset is reflected in the revaluation reserve. After the fixed asset is disposed, the amount remaining in the revaluation reserve is transferred to the reserve capital. The costs incurred on an asset already in use, such as repairs, overhauls or operating fees, are expensed as incurred.

However, the costs that increase the expected future economic benefits of a given fixed asset beyond the original expected benefits, are capitalised and increase the carrying amount of the asset.

Tangible assets, except for land, are depreciated on a straight-line or other systematic basis over the assets' estimated useful lives, or if shorter over the term of right. Borrowing costs (interest) which relate to the construction, adaptation, assembly or improvement of a tangible asset or intangible asset are capitalised as part of the initial cost of the asset, where those borrowings were taken out for that purpose. Foreign exchange gains/losses on such borrowings are also capitalised.

Investment properties

Investment properties are measured at purchase price decreased by depreciation and write-offs due to impairment, or at fair value – the policy to be selected. If the fair value model is selected, the changes are recognised in other operating costs or other operating income. Investment property includes properties which the entity does not use for its own purposes but which are held for the purpose of generating profits in the form of increasing value or revenues from rental.

Financial instruments

Financial instruments are initially recognised at acquisition cost (price), being the fair value of the consideration given. The transaction costs are included in the initial value.

After initial recognition, financial instruments (including derivatives and embedded derivatives) are classified into one of the following four categories and measured as follows:

- Investments held to maturity – at amortised cost, calculated using the effective interest rate
- Originated loans and receivables – at amortised cost, calculated using the effective interest rate
- Held for trading investments – at fair value with any unrealised gains/ losses recorded in the profit and loss account
- Available for sale investments - measured at fair value with unrealised gains/ losses recognised in the profit and loss account or in the revaluation

reserve in equity until the investment is sold or impaired at which time the cumulative gain/ loss is included in the profit and loss account – the policy to be selected.

In separate financial statements of a parent entity, investments in subsidiaries, associates or joint ventures are carried at cost, equity accounted, or at fair value. If carried at fair value, all changes are recognised in the revaluation reserve in equity.

The fair value of financial instruments traded on an active market is measured based on that market's listed prices at the balance sheet date. If there is no such a listed market price, the fair value is estimated based on the listed market price of similar instruments or on the expected cash flows.

Hedge transactions

Transactions involving derivative instruments to hedge a financial risk are classified as three types of hedges – cash flow hedges, fair value hedges and a hedge of a net investment in a foreign subsidiary. Hedge accounting applies as presented in table.

	Cash Flow Hedges	**Fair Value Hedges**	**Hedge of a net investments in a foreign subsidiary**
Hedged item recognised	In accordance with other standards.	At fair value, with all changes recognised in the income statement.	In accordance with other standards.
Hedging instrument recognised	At fair value, with effective part of all changes in equity.	At fair value, with all changes recognised in the income statement.	At fair value, with effective part of all changes in equity.

Inventories

Inventory is measured at lower of cost and net realisable value. Capitalisation of financial costs in the inventory is permitted if the production process requires a necessary lengthy period of preparations.

Foreign currency transactions

Transactions denominated in a foreign currency (i.e. not Polish Zloty) are translated into Polish Zlotys at the actual exchange rate applicable at the date of the transaction or, if the actual rate is not known, at the rate published by the National Bank of Poland.

At the balance sheet date, assets and liabilities denominated in foreign currencies (other than shares in subsidiaries and associates carried using equity method) are re-translated at the exchange rate published by the National Bank of Poland.

Foreign exchange differences arising on revaluation are generally recognised as financial income or financial expense. For certain types of long-term investments denominated in foreign currencies gains are recognised in the revaluation reserve.

Foreign exchange differences relating to liabilities financing assets under construction form part of the cost of those assets.

Equity

Issued instruments are classified as equity or liability based on the terms and the definitions of liability and equity. Additional capital contributions – regardless of the terms of redemption are classified as equity. The share capital presented in the balance sheet should be equal to the amount registered in the registration court and based on the shareholders' resolution.

Deferred tax

Deferred tax is recognised, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that, according to provisions enacted by the balance sheet date, will apply in the period when the asset is realised or the liability is settled. The Income Taxes Standard requires that additional tax credits given to companies operating in Special Economic Zones are recognised as government grants i.e. giving rise to a deferred income and deferred tax asset. Such deferred income is to be amortised over the useful life of the asset.

Leases

A lease is classified as a finance lease if at least one of the following seven conditions is met:

- The legal title is transferred upon lease expiry
- The asset may be purchased by the lessee at a price lower than the market value upon lease expiry
- The lease term is longer than 75% of the economic useful life of the leased asset
- The sum of the discounted minimum lease payments is higher than 90% of the market value of the leased asset as at the lease inception
- The lease can be extended on more favourable terms
- If cancelled, the lessee bears all cancellation costs
- The asset is adapted to the specific needs of the lessee.

Business combinations

Business combinations not under common control are accounted for using the purchase method. However, the pooling of interests' method might still be used for legal merger transactions under common control.

7.4. Financial statements

Financial statements must be prepared in the Polish language and expressed in the Polish currency. Financial statements consist of:

- A balance sheet
- An income statement
- A statement of cash flows
- A statement of changes in equity
- Notes to the financial statements (split into an introduction and additional notes).

A cash flow statement and a statement of changes in equity are only required by entities whose financial statements are subject to a statutory audit.

For some specialised types of entities additional exceptions or requirements might apply in relation to primary financial statements such as for example a summary of investments for the investment funds and alternative investment companies.

The format of the balance sheet, income statement, statement of cash flows, statement of changes in equity, and the contents of notes to the financial statements for entities preparing their financial statements in accordance with Polish GAAP are determined by the Accounting Act. Companies listed on the Warsaw Stock Exchange when preparing the financial statements in accordance with Polish GAAP are guided by specific regulations for public issuers. This includes reconciliation between the results reported in accordance with Polish accounting principles and those that would have been met if IFRS as adopted by the EU had been applied.

7.5. Financial reporting, publication and audit requirements

Financial reporting

All entities governed by the Accounting Act are obliged to prepare their standalone and consolidated financial statements (the latter ones only if criteria apply) for each financial year. The financial year need not be the calendar year. Listed companies are additionally obliged to publish semi-annual and quarterly reports. An entity must also prepare financial statements as at the date of the close of accounting records and as a result of other events leading to the termination of the activities of an entity, for example, the close of business (liquidation date).

The standalone and consolidated financial statements should be prepared within three months after the balance sheet date and approved within six months after the balance sheet date.

Directors’ report

Specific entities, such as for example joint-stock companies, limited liability companies, selected partnerships, mutual insurance companies, co- operatives, state-owned companies, investment funds and investment companies prepare, in addition to the financial statements, a financial review by management – the management report (the Director’s report). The scope of the report is defined in legal regulations and includes topics such as:

- Description of events that significantly impact upon the entity’s performance and that occurred during the reported period and after its closing date till the date the financial statements are approved
- Predicted development of the entity
- Major achievements in the research and development area
- Actual and planned financial situation, including financial ratios
- Details about transactions in own shares
- Information on branches (business units)
- Financial risk management objectives and methods
- Key financial and nonfinancial efficiency metrics in relations to operations as well as information on employment and natural environment
- Information on the application of corporate governance rules (only public companies).

The Report on Payments to the Public Administration

The enterprises operating in the mining industry or logging the virgin forests and satisfying the criteria provided in the Accounting Act have to prepare an additional report on payments to the government together with the financial statements. The report presents the total payments to the governments of a certain country analysed by the level of public administration, type of payment, and certain project, if applicable.

Statement of non-financial information

The listed entities that exceed the given thresholds are also required to present a statement and a consolidated statement of non-financial information. This statement includes among others:

- Description of the business model;
- Key non-financial performance ratios;
- Description of social, environment, human rights and anti-corruption policies, the associated risks and the effects of application of those policies.

That statement may be published on the entity’s web pages.

Publication requirements

Management is required to file the annual financial statements to the registration court together with the following documents:

- Auditor’s opinion, if the statements were subject to an audit

- Shareholders' resolution on the approval of the financial statements and distribution of profit or coverage of loss
- Directors' report (if applicable)
- The report on payments to the public administration (if applicable).

If not approved within 6 months after balance sheet date, additional filling is required from the entities which have not managed to approve their financial statements in the prescribed dates.

Listed companies are also required to file their financial statements with the Polish Financial Supervision Authority including interim (quarterly and semi-annual) reporting.

Audit requirements

Polish statutory audit requirements apply to all annual consolidated financial statements and to the annual standalone financial statements of the following entities that operate as a going concern:

- Banks, insurance companies, reinsurance companies, pension funds, investment funds (including alternative, closed, open and specialised funds), investment fund management companies, joint-stock companies and public companies, payment institutions, brokerage houses and firms
- Other entities that meet at least two of the following three thresholds in the financial year preceding the financial year for which the financial statements were drawn up:
    - Annual average employment (equivalent of 50 individuals employed full-time)
    - Total assets as at the end of the financial year (the Polish Zloty equivalent of EUR 2,5 million or greater)
    - Net sales including financial income for the financial year (the Polish Zloty equivalent of EUR 5 million or greater

The statutory audit requirements also apply to entities after merger for the year when the merger occurred.

All statutory IFRS financial statements are subject to audit requirements.

There are also additional requirements in relation to audit or review of interim financial statements of public companies and investment funds.

Audits are governed by the relevant legal requirements in force which include:

- Chapter 7 of the Accounting Act
- Auditors Act
- National auditing standards issued by the National Council of Statutory Auditors
- Regulation (EU) No 537/2014 of the European Parliament on the council on specific requirements regarding statutory audit of public-interest entities


May Jun Jul Aug Sep Oct Nov
Berlin
New Delhi
Canberra
Wellington

7.6. Consolidation

Consolidation requirements

A capital group is a group which comprises a holding company and its subsidiaries.

According to the Accounting Act, a holding company is a company that controls another entity.

A capital group draws up its consolidated financial statements on the basis of standalone financial statements of entities that belong to the group. Groups which, in the preceding and current financial years, did not exceed at least two out of three of the following thresholds before intragroup eliminations:

- annual average employment – equivalent of 250 individuals employed in full time
- total assets of all group entities – PLN 38,4 million
- total sales and financial income of all group entities – PLN 76,8 million

Or after intragroup eliminations:

- annual average employment – equivalent of 250 individuals employed in full time
- total assets of all group entities – PLN 32 million
- total revenue of all group entities – PLN 64 million

are exempted from drawing up the consolidated financial statements.

A subsidiary is excluded from consolidation if:

- The shares in such entity were acquired, purchased or otherwise obtained for the sole purpose of subsequent resale within one year from the date of acquisition
- There are severe long term restrictions on the exercise of control over the entity which prevent free disposal of its assets, including net profit generated by this entity or which prevent exercise of control over the bodies managing the entity
- It is impossible to get the information necessary for preparation of a consolidated financial statement without delay incurring unreasonably high cost (applies in exceptional cases only).

A subsidiary need not be included in the consolidated financial statements if the amounts stated in that entity's financial statements are immaterial in relation to the holding company's financial statements.

Consolidated financial statements

Consolidated financial statements comprise:

- A consolidated balance sheet
- A consolidated income statement
- A consolidated statement of cash flows
- A consolidated statement of changes in equity
- Notes to the consolidated financial statements (split into an introduction and additional notes).

Consolidated financial statements should be accompanied by a Group Directors' report prepared by the Management Board of the holding company. Group Directors' report can be prepared together with a Directors' report of the holding entity as a single report.

Consolidated financial statements should be prepared at the same balance sheet date and for the same financial year as the financial statements of the holding company. If this date is not the same for all entities within the group, then consolidation may cover financial statements drawn up for a twelvemonth period different to the financial year, if the balance sheet date of those financial statements is earlier by no more than three months of the balance sheet date adopted by the group. Companies included in the consolidation should adopt consistent accounting policies and consistent methods of preparation of financial statements. If the accounting policies of consolidated entities differ from those applied for consolidation, then appropriate adjustments must be carried out at the consolidation level.

Methods to include entities in consolidated financial statements

A subsidiary (see Consolidation requirements) is consolidated using the full consolidation method. Jointly controlled entities are consolidated using a proportional consolidation method or accounted for using an equity method. Associates are accounted for using the equity method. When the associate prepares its consolidated financial statements, the equity method applies to the net consolidated assets of the associate.

7.7. Principal differences between Polish Accounting Regulations and International Financial Reporting Standards

The main differences between Polish Accounting Regulations (PAR) and International Financial Reporting Standards (IFRS) effective as of 1 January 2017 are presented in the following table.

Description	PAR	IFRS
Functional currency	Functional currency concept does not underlie the preparation of the financial statements	Functional currency concept underlies the preparation of the financial statements.
Property Plant and Equipment	Components of property, plant and equipment are neither specifically mentioned nor defined. Consequently, overhauls give rise to a provision accounted for on a cumulative basis.	Component accounting is required. Moreover, accounting for overhauls follows component accounting and does not result in recognition of provisions.
Fixed assets	Fixed assets may be revalued only on the basis of separate regulations to a value not exceeding the fair value.	Fixed assets may be revalued to their fair value.
Non-current assets or disposal groups held for sale	There is a lack of requirements concerning the valuation of assets and disposal groups held for sale. Depreciation is required for assets and disposal groups held for sale. Separate presentation and specific disclosures are not required.	Measurement at the lower of carrying amount and fair value less costs to sell. Non-current assets or disposal groups that are classified as held for sale are not depreciated. Presentation in separate line of the statement of financial position.
Inventory	Companies may choose the LIFO formula for the determination of the value of sold inventory.	The use of LIFO formula is explicitly not permitted.
Capitalisation of borrowing costs	All borrowing costs, arising on financing of tangible and intangible assets, incurred in the period of construction, are capitalised as part of the assets' costs. FX gains/losses on capex invoices are capitalised. A choice is given to capitalise borrowing costs into inventory which takes considerable time to complete.	Capitalisation of borrowing costs required on specific and general borrowings to finance the construction of individual qualifying assets. FX gains/losses are also included as part of the borrowing costs, to the extent they represent an adjustment to the interest charge.

Description	PAR	IFRS
Investment properties	Assets held under an operating lease cannot be classified as investment property. No specific measurement formulas are mentioned/allowed.	Assets held under an operating lease can be classified as investment property and accounted for as a finance lease. The fair value model must be applied in such cases. LIFO formula is not allowed.
Intangible assets	Revaluation to fair value is not permitted. All intangible assets are amortised.	Revaluation to fair value is permitted only if there is an active market in which it is possible to reliably determine fair value. Intangible assets are split into those with a finite life – amortised – and those with an indefinite life – not amortised and subject to an annual impairment test.
Impairment of assets	Assessed annually if there are indicators that the assets (including goodwill and intangibles) may be impaired. Assets write down to selling value or, if that is not available, to fair value.	Assessed annually if there are indicators that assets may be impaired (including goodwill and intangibles). If indications exist, write assets down to the higher of fair value less costs to sell and value in use. Even if there are no indicators, goodwill, indefinite life intangible assets and intangible assets not yet in use are subject to an annual test.
Hyperinflation	No adjustments for hyperinflation are required.	During the period of hyperinflation, assets and liabilities are restated to reflect the changes in the general price index.
Business Combinations	Accounted for as an acquisition in transactions that are not legal mergers under common control. Legal mergers among entities under common control might be accounted for using the 'pooling of interests' method. Transaction costs increase the consideration paid for business combination. Any result on decrease or increase of minority interests is recognised as finance income or costs.	Accounted for as an acquisition in all cases. Combinations and legal mergers among entities under common control require developing accounting policy in accordance with IAS 8. Transaction costs are recognised in profit or loss. Decrease or increase in non-controlling Interests is accounted for within equity with no impact on profit or loss.

Description	PAR	IFRS
Goodwill and adjustments to fair value on acquisition of subsidiary	Goodwill on acquisition is the difference between the purchase price and the fair value of all assets and liabilities acquired. Changes in the initial fair values of acquired assets and liabilities which are identified during the financial year in which the acquisition took place should adjust goodwill. Goodwill is amortised over the economic useful life or, if the economic useful life is not reliably determinable, then over a period not exceeding 5 years. Negative goodwill: ‣ Relating to future losses acquired as deferred and amortised over the period of the loss ‣ Otherwise, up to the value of the depreciable assets is deferred and amortised over the depreciable life ‣ Balance is recognised as income ‣ Not allowed in regard to measurement of intangibles.	Goodwill on acquisition is the excess of (a) over (b) bellow: (a) the aggregate of: (i) the consideration transferred, which generally requires acquisition-date fair value; (ii) the amount of any non-controlling interest in the acquiree; and (iii) in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interests in the acquiree (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Changes in the initial fair values of acquired assets and liabilities if only provisionally assessed at the date of acquisition, which are identified within 12 months of the acquisition, are adjusted against goodwill. Goodwill is not amortised, but subject to a yearly impairment test. Gain on bargain purchase is recognised as income.
Investments in subsidiaries, associates and joint ventures in separate standalone accounts of the parent	Choice of policy between: ‣ Cost ‣ Equity accounting ‣ Fair value with all changes recognized directly in equity	Choice of policy between: ‣ Cost ‣ Equity accounting ‣ Fair value with all changes recognised directly in other comprehensive income

Description	PAR	IFRS
Financial instruments	The following categories of financial instruments are available: • Loans and receivables restricted to those arising from providing funds to another entity • Available for sale financial assets are measured at fair value with a choice of policy to recognise changes in the income statement or equity. Any impairment recognised in the income statement may be reversed in the income statement at a later date • Held for trading instruments are those acquired for the purpose of generating profits from sale in a short period of time • Held for maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity • Other financial liabilities.	The following categories of financial instruments are available: • Loans and receivables include those arising from sale of goods and may include balances acquired in some cases • Available for sale financial assets are valued at fair value with changes recognised in equity. Any impairment below cost is recognised in the income statement and for equity instruments may not be reversed through the income statement • Financial assets or financial liabilities at fair value through profit and loss consist of: • Held for trading • Other assets or liabilities designated at inception and meeting specific conditions • Held for maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity • Other financial liabilities.
Hedging	Cash flow hedges include all firm commitments. The balance in equity is included in the carrying value of the acquired asset/liability.	Cash flow hedges include firm commitments only relating to foreign exchange risk – all other commitments are fair value hedges. The balance in equity remains in equity until the underlying transaction effects the income statement. If the firm commitment was for a non-financial asset or liability, there is a choice of policy to adjust the carrying value of the asset/liability or to keep the balance.

Description	PAR	IFRS
Investment tax credits	Investment tax credits used give rise to a deferred tax asset and at the same time are recognised as a government grant to be amortised over the useful life of the asset (per standard issued by Accounting Standards Committee).	Unused investment tax credits give rise to a deferred tax asset and affect the tax charge in the year granted.
Share - based payments	There is a lack of requirements concerning share-based payments accounting. The practice is not to account for equity-settled' transactions and to recognise a provision for cash-settled transactions.	Share-based payments transactions including transactions with employees or other parties to be settled in cash, other assets or equity instruments of the entity are recognised generally giving rise to expenses in the entities financial statements.

In any matters not regulated by the Accounting Law or the Decrees an entity may apply National Accounting Standards issued by the Accounting Standards Committee. In the absence of relevant national regulations, the entity may apply International Financial Reporting Standards.

7.8. Exemptions and simplifications applicable for small and micro entities

Definitions

In 2015, a new definition of a small enterprise was introduced to the Accounting Act in addition to the definition of a micro enterprise. Micro and small enterprises are legal entities and the branches of foreign companies (except for organisational units operating in accordance with the Banking Law Act and the regulations on trading in securities, on investment funds, on insurance and reinsurance activities, on credit unions, on the organisation and operation of pension funds or on public benefit organisations) which, in the preceding and current financial years, did not exceed at least two of the following thresholds, provided that respective resolution has been taken by the entity's body responsible for approving the financial statements:

	Micro	Small
total assets	PLN 1,5 million	PLN 17 million
total revenues	PLN 3 million	PLN 34 million
annual average employment level (individuals in full time equivalent)	10	50

Moreover, trade unions, employers' organisations, chambers of commerce, and representative offices of foreign companies are considered micro entities on a condition they do not conduct business activities.

If the statutory audit requirement is a consequence of company's size rather than other factors then it should be noted that some of small entities or entities that enjoy exemptions in measurement of assets and liabilities as described below might be subject to statutory audit as thresholds to qualify for such simplifications and exemptions are higher than these for the statutory audit requirement.

Micro entities are prohibited from measuring assets and liabilities at fair value and at amortised cost.

Irrespectively from the decision of whether the company is a small, or a micro, entity and applies the respective simplified financial statements template, the companies that, in the preceding financial years, did not exceed at least two of the above-mentioned thresholds, may apply the following exemptions.

However, if such an entity did not take a respective resolution to apply the financial statements templates applicable to small and micro entities, it should apply the normal financial statements templates.

Financial instruments

Companies that satisfy those criteria may elect to measure the financial instruments in a simplified way as follows:

- Short-term investments – at the lower of cost or market value, at fair value or at amortised cost (if a maturity date is known) with gains/losses recognised in the profit and loss account
- Long-term investments – at acquisition cost less impairment or at fair value with gains/losses recognised in the revaluation reserve in equity or in the profit and loss account (if the current valuation is lower than original). If a maturity date is known, long term investments might be stated at amortised cost.

Deferred tax

Those companies may elect not to recognise deferred tax.

Leases

Those companies are allowed to apply tax regulations in order to recognise and classify leases.

Financial statements

Small and micro entities prepare simplified financial statements in accordance to the relevant template provided as an attachment to the Accounting Act.

Revenues and profits

Micro entities are required to increase respectively the revenues or expenses in the subsequent financial year after the approval of financial statements, by the difference between the revenues and expenses determined in the current financial year's income statement.

A positive difference may be accounted for as an equity increase.

Cash-flow statement and statement of changes in equity

Micro and small enterprises are exempted from preparation statement of changes in equity and cash flow statement.

Directors' report

Small entities are required to prepare a simplified Directors' report, or at least disclose the minimum additional information required by the Accounting Act.

Micro entities are not required to prepare a Directors' report if they present supplementary information to the balance sheet, as required by the Accounting Act.


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