



The evolution of governmental accounting in the phases of a State regime reshaping from capitalism to socialism and from socialism to capitalism: the case of Poland in the 1950s – mid-1990s*

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Abstract

The main aim of this paper is the presentation and analysis of the fundamental phases of the reshaping of Polish public sector accounting from the beginning of the 1950s up to the mid-1990s. These years constitute the period of the two opposite transitions of Polish governmental accounting: at the beginning it was reoriented from serving the state under the market economy of the time towards serving the state under a centrally planned economy; at the end it was reoriented just the opposite – from serving the state under a centrally planned economy towards serving the state under a contemporary market economy. Both transformations were of a unique character on the international scale. The patterns and contingencies of these transitions have been outlined. This article was written in 1996, but has not yet been published. Its publication in practically unchanged form is designed to illustrate a way of thinking and writing about accounting on the Polish academic plain according to the manner of the time.

The adopted approach and method have a descriptive-analytical character, backed up with the theory of the change in the public sector accounting and empirical research. The original model of the public sector accounting innovation in Poland and accounting regulations of the time were used. In the conclusion, it is possible to state that, for Poland, the public sector accounting both in the period of the centrally planned economy and in the period of the market economy, rely on the accrual convention and the double entry – it remains steady. Its reshaping is of an evolutionary character, and shifts in the sociopolitical-economic system of the state, the way public authorities function and the nature of public sector entities, determine the process change. Appropriate legal instruments are a basic tool of the regulation of the change, with central government administration in the leading role.

Keywords: accounting, public sector, reshaping, transition, the State regime, Poland.

* This paper was written in 1996, and served as the basis for the presentation of the issue to the 7th World Congress of Accounting Historians, Kingston, Ontario, Canada, August 11–13, 1996. It presents the way of thinking and writing characteristic for Poland at that time. It has not been published until now.

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Streszczenie

Rachunkowość rządowa w fazach przekształcania państwa z reżimu kapitalistycznego na reżim socjalistyczny i odwrotnie: przypadek Polski od lat 50. do połowy lat 90. XX wieku

Głównym celem artykułu jest przedstawienie i analiza fundamentalnych etapów przekształcania rachunkowości polskiego sektora publicznego, w okresie od początku lat 50. do połowy lat 90. ubiegłego wieku. W tym czasie doszło do dwóch radykalnych transformacji polskiej rachunkowości rządowej. Na przełomie lat 40. i 50. rozpoczęto jej przekształcanie z pozycji służenia państwu gospodarki rynkowej (w jej ówczesnym stanie) ku pozycji służenia państwu gospodarki centralnie planowanej, by w pierwszej połowie lat 90. przekształcać ją z pozycji służenia państwu gospodarki centralnie planowanej ku pozycji służenia państwu gospodarki rynkowej. Obydwie transformacje miały unikalny charakter w skali międzynarodowej. Zarysowano wzory i uwarunkowania tych transformacji. Artykuł powstał w roku 1996, ale dotąd nie opublikowano go. Jego publikacja w praktycznie niezmienionej postaci ma ilustrować ówczesny sposób myślenia i pisanie o rachunkowości na płaszczyźnie akademickiej. Podejście i metoda mają charakter opisowo-analityczny, wsparty teorią zmiany w rachunkowości sektora publicznego i badaniem empirycznym. Wykorzystano autorski model innowacji w rachunkowości sektora publicznego w Polsce oraz regulacje rachunkowości tamtego okresu. W konkluzji można stwierdzić, że w Polsce rachunkowość sektora publicznego zarówno w okresie gospodarki centralnie planowanej, jak i w okresie gospodarki rynkowej, opiera się na konwencji memoriałowej i podwójnym zapisie – to się nie zmienia. Jej przekształcenia mają charakter zmiany ewolucyjnej, warunkowanej zmianami w systemie społeczno-polityczno-ekonomicznym państwa i sposobie funkcjonowania władz publicznych oraz naturą jednostek zaliczanych do sektora publicznego. Podstawowym narzędziem regulacji zmiany są instrumenty prawne właściwe dla władzy centralnej, z pierwszoplanową rolą administracji rządowej.

Słowa kluczowe: rachunkowość, sektor publiczny, przekształcanie, transformacja, reżim państwa, Polska.

Introduction

The history of Polish 20th century governmental accounting dates back to 1918, the year of restitution of the Polish state. The landmarks in the course of governmental accounting developments were consecutively:

- restitution and development of the State of Poland,
- Nazi occupation 1939–1945,
- imposition of the Soviet-type political and economic system in 1945–1953,
- radically accelerated in 1989, the transformation of this socio-economic system, consisting in the transition from the domination of state ownership of production means and centrally planned economy, accompanied by a mono-party political system, to a free market economy and liberal democracy with private ownership of production means as its basis, and the rejection of Soviet ideology.

It should be underlined that during the initial period of the development of Polish governmental accounting, the integration of three accounting traditions from the beginning of the 20th century, i.e. the German, Austrian and Russian, was a precondition. The 1939–1945 war brought the imposition of the German system of accounting. However, in spite of the differences, the first two stages in the development of Polish governmental accounting took place in a capitalistic socio-economic context. The turning point came with the imposition of the Soviet-style accounting. This type of accounting was the point of departure for all recent changes, which largely determines their character and scope. Another factor determining the direction of contemporary governmental accounting evolution in Poland is the governmental accounting of Western countries which followed different paths of development.

The paper provides an analysis of the reshaping of Polish governmental accounting, from a capitalist-type system to a socialist one, and then from a socialist-type system to a capitalist one. The characteristics of measurement and reporting standards of these periods are also presented and the changes in standard setting procedures are described. Moreover, the paper attempts to judge whether, and to what extent, the changes that happened during the analysed period are favourable to Polish transformations in the early 1990s.

1. Method

The author is of the opinion that the approach necessary for the analysis of the above-mentioned transitions is of a descriptive-analytical nature. It is especially important for comparative studies, which becomes understandable only if the basic model has been properly defined. Consequently, the author thinks that to find the pattern of the changes of Polish public sector accounting during the years 1951–1995, both the paths of evolution and its last stage should be outlined. The explorations are based on a generalised model of public sector accounting innovations, developed by Nowak

and Jaruga – on the basis of Lüder’s „contingency” model (Lüder, 1994, p. 9) – for public sector accounting reshaping. The former model has been presented in Appendix 1. Descriptions and analyses are made pursuant to the respective regulatory texts.

2. History: the 1950s – origins of the modern Polish way of thinking about public sector accounting regulations

The constitutional changes initiated in Poland in 1989 gave rise to a process of intensive change in the public sector, which clearly tended towards its radical limitation¹. During the period of the centrally planned economy, the greater part of national economic activity occurred within the public sector. There were only two exceptions – the relatively strong private sector in agriculture, and the rather marginal private sector in light industry. From 1950, the year in which the State began laying the foundations of socialism in Poland², the principles of accounting for entities of the socialised economy and budgetary accounting (i.e. public sector accounting) were introduced by means of orders and decrees of the Minister of Finance³. The Finance Ministry was itself created in 1950 following the conversion of the office of the Minister of the Treasury⁴. The Finance Minister’s sphere of activity consisted of, among others, the following (Order of the Council of Ministers dated 01.04.1950):

- drawing up national budget estimates, carrying out the budget, and also drawing up a report on the way in which it was carried out (settlements of accounts),
- standardising the drawing up of local budgets,
- standardising accounting and financial reporting conducted by offices, factories and other institutions covered by the state budget.
- At that time, the budgetary sector consisted of the following:
 - budgetary units (cost centres related to the government budget),
 - special resources within budgetary units which were rated to profit-earning activities, that is, in general, covering operational costs through the sale of services and goods produced,
- auxiliary holdings, which were de facto separate profit-oriented companies subordinated to budgetary entities.

¹ According to the statistical year-books of the Central Statistical Office, in 1990 the public sector produced 69.1% of Gross National Product, while in 1993 – only 44.7%.

² If we accept this approach, then the greater part of the fifties in Poland – at least up to 1956 – may be regarded as a period of socialist orthodoxy.

³ In the field of accounting, the Treasury Ministry was limited to „standardising and supervising the accounting of authorities, offices, and state institutions” (Act dated 02.07.1949, Article 1, subparagraph 1, item 11).

⁴ It was then argued that this conversion was brought about „In order to fulfil the great objectives of the 6-year national economic plan, and bring about a fundamental change in the field of financing the national economy, to create a uniform state budget, and to increase financial control and determine both its scope and form...” (Act dated 07.03.1950).

In 1950, two other important modifications were introduced: the monetary system was changed (Resolution of the Council of Ministers dated 28.10.1950) and the hitherto existing system of carrying out the state budget and local budgets was abolished, while at the same time new rules of carrying out the State budget were brought into force (Decree of the Minister of Finance dated 09.12.1950). In December 1951, the Minister of Finance, acting on the basis of the authorisation granted in the Order of the Council of Ministers dated 01.04.1950, issued the first rules and regulations concerning budgetary accounting under the new system of carrying out government budgets (Decree of the Minister of Finance dated 04.12. 1951).

In December 1952, issues connected with the adoption and carrying out of the State budget were regulated by means of an ordinance, i. e. by an enactment with the force of law (Ordinance dated 17.12.1952), whereas detailed rules and procedure for carrying out the State budget were regulated through a resolution which was passed by the Council of Ministers in April 1953 (Resolution of the Council of Ministers dated 29.04.1953). In March 1956, the Minister of Finance, acting on the basis of the authorisation granted in this resolution, issued new rules and regulations for budgetary accounting, thereby replacing those introduced in 1951 (Decree of the Minister of Finance dated 10.03.1956). The new regulations contained the first *expressis verbis* description of the objectives of budgetary accounting (according to § 1, subparagraph 2 of the annex to the Decree of the Minister of Finance dated 10.03.1956). These were presented as:

- recording and controlling the carrying out of the budget,
- controlling and protecting socialist property, providing safeguards against the illegal and uneconomical expenditure of budgetary means, and making sure that financial and budgetary discipline is maintained,
- providing data for budgetary planning.

The objectives of modern Polish budgetary accounting are in essence the same – the only significant difference is that the adjective „socialist” has been replaced with „public”. In order to facilitate the realisation of the aforementioned goals, a reporting model was developed that was firmly based on the balance sheet, and reports on the cash-flow, liabilities and receivables connected therewith. Notwithstanding certain relatively minor changes, this model is still being used.

In July 1958, the 1952 decree concerning the adoption and carrying out of the State budget was replaced with the budgetary law act (Act dated 01.07.1958) passed by the Polish parliament. This was made up of six basic chapters:

Part I. *General principles.*

Part II. *Drawing up and adopting the budget.*

Part III. *Carrying out of the budget.*

Part IV. *Budgetary discipline.*

Part V. *Reporting on and controlling the carrying out of the budget.*

Part VI. *Final regulations.*

Since then, the principles of adopting and carrying out government budgets have been regulated by means of successive budgetary law acts (acts passed in 1970, 1984, and 1991). The 1958 act was the first to contain the statutory delegation to the Minister of Finance. This obliged him to issue rules and regulations in matters concerning accounting, reporting, cash servicing of the budget, the classification of budgetary receipts and expenditure, and has formed an integral part of subsequent budgetary law. As a result, the principle of the division of issuing budgetary accounting standards from accounting standards for business entities was recognised and politically strengthened within the framework of the centrally planned economy. The budgetary accounting rules and regulations passed in 1956 were in force until the end of 1960. At the beginning of 1961, the Minister of Finance replaced them with the new budgetary accounting rules (Decree of the Minister of Finance dated 02.01.1961). It is important to note that this regulation did not cover entities which were auxiliary to budgetary units. The fact that they were engaged in profit-earning activities made them subject to accounting regulations provided for entities of the socialised economy acting as business entities. However, the aforementioned Decree did cover budgetary entities which began to appear in 1958 as a result of the conversion of budgetary units whose operational costs could, to a large extent, be covered by the sale of their products (the budgetary entity is a special kind of profit centre related to the budget). Therefore, the late fifties and early sixties witnessed the coming of age of a budgetary system which is – in essence – still operative today (i.e. in the mid-1990s), and this is despite activities carried on from the end of the eighties that are aimed at turning local communities into carriers of rights.

Similarly, accounting rules for profit-earning entities of the public sector were also formed during the fifties, and reached maturity in 1959. Before this year, the following matters were regulated by means of separate regulations and instructions of the Minister of Finance:

- storing accounting documents (1950, 1951, 1957),
- stocktaking, and the preparation and approval of financial reports (1951 and 1953),
- fundamental principles of accounting (1954),
- charts of accounts (1949, 1950-1954),
- auditing (1959).

In 1959, the Minister of Finance issued two key regulations concerning entities of the socialised economy from outside the budgetary sector, that is to say the charts of accounts regulation (Decree of the Minister of Finance dated 30.06.1959) and the regulation concerning the basic principles of accounting (Decree of the Minister of Finance dated 04.12.1959). What is more, the Council of Ministers issued a resolution calling for the financial and accounting revision of state organisational units (Resolution of the Council of Ministers dated 12.05. 1959). The December 1959 regulation integrated, and at the same time modified, earlier rules and regulations, thereby achieving a structure that, with the exception of insignificant changes, has been repeated in all subsequent accounting rules and regulations, including the 1994 accounting act.

As far as charts of accounts are concerned, it is accepted that in a centrally planned economy they should ensure the accuracy and comparability of financial information in relation to all profit-earning entities of the socialised economy, and also make possible the collection of data consistent with the financial system in force and adapted to existing planning systems.

In the period under consideration, the development of standard charts of accounts may be viewed as a three-phase process. The first phase encompasses the years 1945–1949, when in various sectors of the national economy only uniform sectional charts of accounts, based on German models used in Poland during the Second World War, were applied. The second phase encompasses the years 1950–1959, when in various sectors of the national economy solely uniform sectional charts of accounts based on Soviet models were applied; this was in keeping with the political intention of laying the foundations of socialism. The third and final phase (the end of the fifties – beginning of the sixties) witnessed the integration of experience gathered during phases one and two. This phase ended with the introduction in January 1960 of the homogeneous chart of accounts to the entire national economy (Decree of the Minister of Finance dated 30.06.1959). It may be added that the reforms which followed the constitutional changes of 1989 abandoned the idea of standardising the charts of accounts for profit-earning entities from outside the budgetary sector. The basis for the standardisation became the reporting model for such entities, containing a balance sheet and profit and loss statement.

3. The 1980s – background for the system of public sector accounting in the 1990s

The 1989 changes in the political and economic system in Poland initiated an intensive evolution of the public sector, aimed at its substantial reduction⁵. In the centrally planned economy, most domestic business activity was carried out within the public sector, the only two exceptions being a relatively strong private sector in agriculture and rather marginal private small business. The principles of public sector accounting were laid down by decrees of the Minister of Finance. The last decree on general principles of public sector accounting before the system transformation was issued in 1983 and was amended twice – in 1986 and 1988. These principles provided a point of departure for public sector accounting transformation in the 1990s. The situation in this field before the transformation can be characterized as follows:

1. Central setting of the reporting model and accounting principles, including measurement procedures and plans of accounts, fell within the competence of the Minister of Finance, which was one of the canons of the system.

⁵ The Gross Domestic Product from Polish public sector amounted to 69.1% in 1990 and 44.7% in 1993.

2. The basic measurement concept was modified on the full accrual basis.
3. The reporting model consisted of the balance sheet and the profit and loss account.
4. Neither legal norms nor common practice required the publication of financial statements.
5. General principles of accounting laid down by the Minister of Finance were binding for all types of organizations with the dominance of public property, excluding banks. Bank accounting was regulated by the president of the central bank. Therefore, general principles of accounting related also to budgetary units, commercial companies and insurers, as well as the political, social and professional organizations and enterprises they ran.

4. Demarcation of the public sector in the early 1990s

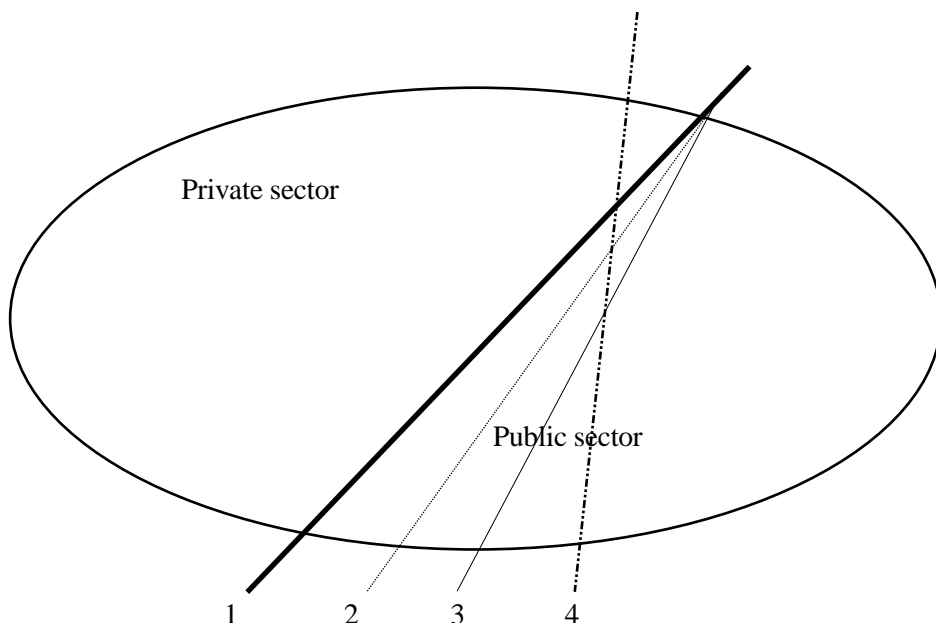
The problem of public sector demarcation gained importance in connection with the system transformation in the early 1990s. Ownership form became the main criterion of the dichotomous division of the national economy into the private and public sectors. Beginning from 1990, the Central Statistical Office regards as belonging to the public sector those entities that are state or communal property, or mixed property with a predominance of public property. Two other criteria which can be applied in public sector demarcation, i.e. the main source of funding and the regulatory impact of the budgetary law, are now used in Poland for public sector restructuring. Public sector organizations financed mainly from the state or local budget constitute the budgetary sphere. Those budgetary sphere entities whose organisational form and financial principles are regulated by the budgetary law constitute the budgetary sector (governmental sector). The budgetary sector is connected with the execution of the state and local budgets. Polish budgetary law standardizes organizational forms of those state and communal entities whose finances are not regulated by other legal documents. Two basic types of organizational form may be distinguished: **a budgetary unit** and **a budgetary entity**. Two auxiliary types are connected with the budgetary units: **an auxiliary holding**⁶ wholly controlled by it, and **a special resource** – an internal subdivision. Budgetary entities, auxiliary holdings and special resources are set up in order to carry out business activities within the realisation of public targets if

⁶ A budgetary unit continues to be a basic tool of budget execution and a cost centre related to, respectively, the state budget or local government budget. A budgetary entity continues its existence as the profit centre with activities restricted regarding field and scope, and relates to the state budget or local government budget. An auxiliary holding is, from an economic viewpoint, a profit-earning enterprise, which is state or communal property, which fully covers its expenses with revenues from the sale of products. For this reason the Polish Parliament is currently considering the taxation of the activity of auxiliary holdings according to the rules on income tax from legal entities, although under the budgetary law auxiliary holdings cannot have a legal personality.

revenues from such activities may, at least partly, cover the costs involved. Any business activity carried out by budgetary entities, auxiliary holdings and special resources is called off-budget economy within the budgetary sector. One more organizational form in the budgetary sector is the special purpose funds. They are formed on the strength of the law or by a resolution of a municipal council to perform a public task outside the budget (Jaruga and Nowak, 1995a, p. 80).

The division of the national economy using the criterion of ownership, budget as the main source of financing, and the applicability of the budgetary law overlaps now with another division, i.e. into business and non-business entities. From the accounting viewpoint, it is particularly important to distinguish the class of non-business entities which are outside the budgetary sector. The composition of the Polish public sector in the mid-1990s is shown in Diagram 1.

Diagram 1. The Polish public sector in the mid-1990s



- 1) the division of national economy according to ownership criterion
- 2) the budgetary sphere
- 3) the budgetary sector
- 4) the not-for-profit sector

Source: author's research.

It should be noted that the sub-section of the public sector delimited by lines 1 and 2 encompasses typical business entities and other profit-earning units, including state

and communal banks and national investment funds⁷. This is the domain of the privatisation processes, where a very important role is to be played by the national investment funds. The ownership function has recently been restored to the State Treasury, which was re-established on 1 October 1996 as a ministry.

5. Sources of accounting standards

Generally, accounting standards in Poland have the character of legal norms. Currently, there are five acts regulating the procedures of setting specific accounting standards, and a general Accounting Act:

1. The 1980 Act on fiscal obligations, which in art. 38 p. 3 provides that the Minister of Finance may, by way of decree, impose on specified groups of taxpayers an obligation to keep account books and may set specific requirements relating to this activity.
2. The 1991 Budgetary Law, which in art. 51, 51a and 70 p. 1 defines procedures of standard setting for public sector entities.
3. The 1991 Act on income tax from natural persons, which in art. 22 p. 8 empowers the Minister of Finance to determine (for tax purposes), by way of decree, the method of initial value determination and of keeping record of fixed property and intangible assets by taxpayers obliged to keep account books.
4. The 1992 Act on individual tax from legal persons, which in art. 15 p. 5 empowers the Minister of Finance to determine (for tax purposes), by way of decree, which property elements are regarded as fixed and intangible assets, and to lay down principles of their depreciation and value adjustment (restatement).
5. The 1994 Accounting Act, which:
 - a) defines the general conceptual framework of accounting,
 - b) sets general accounting standards, relating both to measurement and reporting,
 - c) lays down basic principles of auditing and the publication of financial statements,
 - d) in art. 80–83 empowers respectively the Minister of Finance, President of the National Bank of Poland and the Head of the Securities Commission, to lay down specific principles of accounting and setting standard plans of accounts.

⁷ National investment funds are the property of the State Treasury, and have the form of a joint stock company. Its basic form of activity is the management of the stock of joint stock companies transferred by the State Treasury, in particular of one person State Treasury companies. The aim of the national investment funds is to increase the value of the entrusted stock capital, especially through increasing the value of shares of the companies in which they have shareholdings. 85% of the shares of national investment funds are to be turned over to society by way of general privatisation.

Thus, after 1989, the Polish Parliament took advantage of its superior position and made it a strictly political issue, in the democratic sense of this word, to lay down a general model and general standards of accounting, and to empower central administrative bodies to lay down specific accounting principles and introduce standard plans of accounts. It is interesting to note, though, that accounting standards setting in Poland, in spite of democratic changes and the introduction of the free market, still falls within the competence of political bodies and central administrative agencies. This refers both to the private and public sectors. This could be regarded as following the continental European tradition in the approach to accounting regulation.

6. The Polish accounting system in the early 1990s

After the 1989 change, initiating reorientation towards democracy and free market, the Minister of Finance issued on 15 January 1991 (i.e. with over a year's delay) the Decree on the Principles of Accounting, which replaced his earlier decree of 1983 on the same matter. The new regulation was applicable to the budgetary sector as well. The decree was issued on the basis of delegations provided for in the following legal acts: the Act on Financial Management of State Enterprises of January 1989, the Co-operative Law of December 1982, the Act on Tax Liability of December 1980 and the Budgetary Law of January 1991. The following accounting concepts underlie the rules of 1991 Decree (Jaruga and Nowak, 1995a, p. 83):

- accrual basis of accounting,
- going concern,
- historical cost,
- substance over form,
- prudence,
- assets and liabilities recorded at gross amounts and not offset one with another,
- full disclosure principle,
- consistency in application and adequate disclosure made where there is change in the application.

The clarification of the issue of accounting concepts in the above Decree, combined with progressing democratisation, expansion of the private sector and the development of the free market, results in new demands of financial information quality, auditing and publication. Moreover, conflicts of interests between the public sector and the private sector, coming to light in the process of privatisation, and the „imbalance” between legal power and the degree of susceptibility to pressures from interest groups in the parliamentary regulation of tax issues and administrative regulation of accounting, gave rise to the idea of transferring the regulation of accountancy from the administrative to the parliamentary level. In September 1994, the Parliament

enacted the first Polish Accounting Act. It is based on the basic accounting concepts contained in the 1991 Decree. The specificity of the Act is an emphasis on disclosure rather than on measurement. According to the Act, the purpose of financial accounting standards to give a „true and fair view” of an entity’s financial position (wealth and obligations), and financial performance and profitability. It seems that the most important features of the Act are:

- the introduction of cash flow reporting,
- the introduction of capital group accounting,
- the increased role of the prudence principle, particularly evident in the requirement to create provisions for various risks and contingencies,
- the introduction of the concept of deferred taxes.

From the viewpoint of accounting regulation, the Accounting Act, in conjunction with the Budgetary Law, has become a legal source of basic accounting principles for all business and non-business entities in Poland, excluding ecclesiastical legal persons. The Minister of Finance, on the strength of his statutory duty to determine specific accounting principles for non-business entities outside the budgetary sector, pointed out in § 5 of his 1994 Order on principles for non-business entities that „Ecclesiastical legal entities keep accounts according to principles defined in internal Church rules, relating to these entities”. It is important to note that rules of the Accounting Act relate directly to business activities in the first place. The specific character of financial institutions, government sector entities and non-business organizations requires supplementing the rules of the Act with detailed or specific principles of accounting, which is to be done by authorised central government agencies.

It should also be noted that the provisions of the Act relating to financial statements of entities and groups, and auditing and publications of financial statements, are not applicable to the budgetary sector. Furthermore, provisions on financial statements of groups, and the auditing and publication of financial statements, do not apply to non-profit entities, providing that they do not carry out business activities.

7. Specific principles of public sector accounting in mid-1990s

The Accounting Act empowers the Minister of Finance, the President of the National Bank of Poland (central bank) and the Head of the Securities Commission to determine specific accounting principles respectively for financial institutions, budgetary sector entities and not-for-profit organizations outside the budgetary sector. The principles of accounting and reporting for financial institutions apply to both the public and private sectors, but their presentation falls outside the scope of this paper. Specific regulations concerning accounting for national investment funds issued by the Minister of Finance in late 1995 should be also mentioned. The author wishes to

focus on specific principles of government accounting. The Accounting Act does not prescribe any model of governmental reporting. The model used currently was set by the Minister of Finance in 1992 on the strength of the delegation in the Budgetary Law. Its description can be found in (Jaruga and Nowak, 1995, pp. 86–89).

The reporting model comprises a balance sheet prepared on the accrual basis, and the statement of budget execution prepared on the modified cash basis, plus supplementary information on the current assets of non-budgetary entities. Unclear is the question of auditing financial statements of the budgetary sector, because the old rules are no longer in force, but the Minister of Finance has not laid down new ones yet and, under the Accounting Act, he can but does not have to do so. As regards specific principles of government accounting currently in force, they are set out in the Decree of the Minister of Finance of August 1995. These principles comprise:

1. The obligation to record budgetary revenues and expenses on the cash basis.
2. The obligation to account for other events on the accrual basis (under the Accounting Act).
3. Fixed assets are valued and depreciated according to the Accounting Act provisions. Land is not amortised, except for opencast excavation sites, and neither are works of art or museum exhibits. Amounts to be written-off are determined on the basis of a depreciation plan. The initial value and depreciation write-offs are adjusted periodically. Certain types of assets are amortised completely by transfer to costs in the month of their being put to use. Thus, written off assets are subject to stocktaking or quantitative inventorying.
4. Intangible assets are depreciated according to the rules of the Accounting Act.
5. Tangible current assets are valued according to the rules of the Accounting Act, except for making adjustments at the balance-sheet date following the „lower of cost or market” principle.
6. Receivables and debts are valued according to the rules of the Accounting Act, i.e. at the amount to be paid, adjusted by provisions for bad debts.

As we see it now, the most important change in government accounting principles is their approximating full accrual accounting, which is possible owing to it being brought within the applicability scope of the Accounting Act, underlined by the „true and fair view” principle. The introduction of new principles of valuation, and accounting for receivables and debts including accrued interest, is regarded in central administration circles as a powerful instrument of disciplining the finances of entities and budget execution. This should reduce significantly financial frauds linked with public debt, especially in the public health service. This step was taken despite the political risk associated with it.

8. The Budgetary Law and budgetary accounting

In Poland, the Budgetary Law traditionally provides the basis for budgetary accounting regulations. It identifies government organs empowered to lay down principles of governmental accounting and reporting, and sets requirements regarding information to be supplied by bodies responsible for budget execution. i.e. respectively, the government for the parliament, and the local government for the gmina (commune) council and central government. These requirements include the provision of financial information based on the closures of account books of the state and local budget.

The structure of the 1991 Budgetary Law is as follows:

1. General provisions.
2. Principles of financial management.
3. Principles of capital investments.
4. Elaboration and passing of the state budget.
5. Elaboration and passing of local budgets.
6. Budget execution.
7. Control of budget execution.
8. Liability for breach of budgetary discipline.
9. Temporary and concluding provisions.

Not only the structure, but also the general provisions of the Budgetary Law influence the principles of Polish budgetary accounting and reporting. This general framework covers the following points:

- 1) requirement that the state budget ought to ensure the accomplishment of socio-political targets set by the parliament,
- 2) determining general principles and ways (procedures) of generating financial resources within the state and commune budgets, and the allocation of these resources for financing tasks following the functions of the state and local self-government,
- 3) determining organizational and legal forms of units performing tasks within the state and local budgets,
- 4) budget definition:
 - a) the budget is an annual financial plan comprising, respectively, the revenues and expenditure of the state or commune,
 - b) budgets are passed for a period of one calendar year,
 - c) the state budget is passed by way of an enactment called a budgetary act,
 - d) budgetary revenues are cash receipts,
 - e) budgetary expenditure is cash expenses,
 - f) the difference between revenue and expenditure is budgetary surplus or deficit,
 - g) the appropriation of the surplus or sources of covering the deficit are determined each time by the budgetary act,
 - h) the budget allows for the creation of a general reserve and specific (special purpose) provisions,

5) definition of the budget structure:

- a) the state budget consists of distinct parts, each covering distinct classes of receipts and expenses; these are:
 - a part covering central administrative bodies and central state authorities (organs), judicial authorities, and educational institutions, whose managers dispose of individual parts,
 - a collective part relating to voivodship budgets,
 - a part relating to general subsidies for communes,
 - a part relating to general reserves,
 - a part relating to special purpose reserves,
 - a part relating to funds for education,
 - a part relating to revenues and disbursement connected with covering the deficit and budget surplus appropriation,
- b) local and central budgetary revenues and expenses within a given group are classified into:
 - sections – according to basic lines of activity,
 - chapters – according to specified groups of organizations or budgetary tasks,
 - items – according to sources of revenue and types budgetary expenditure.
- c) budgetary revenues and expenditure of the state should be separated, in planning, recording and reporting, from administrative tasks to be performed by local governments,
- d) communes and their entities managing their finances under the budgetary law should draw up plans and financial statements according to the principles of budgetary revenues and expenses classification.

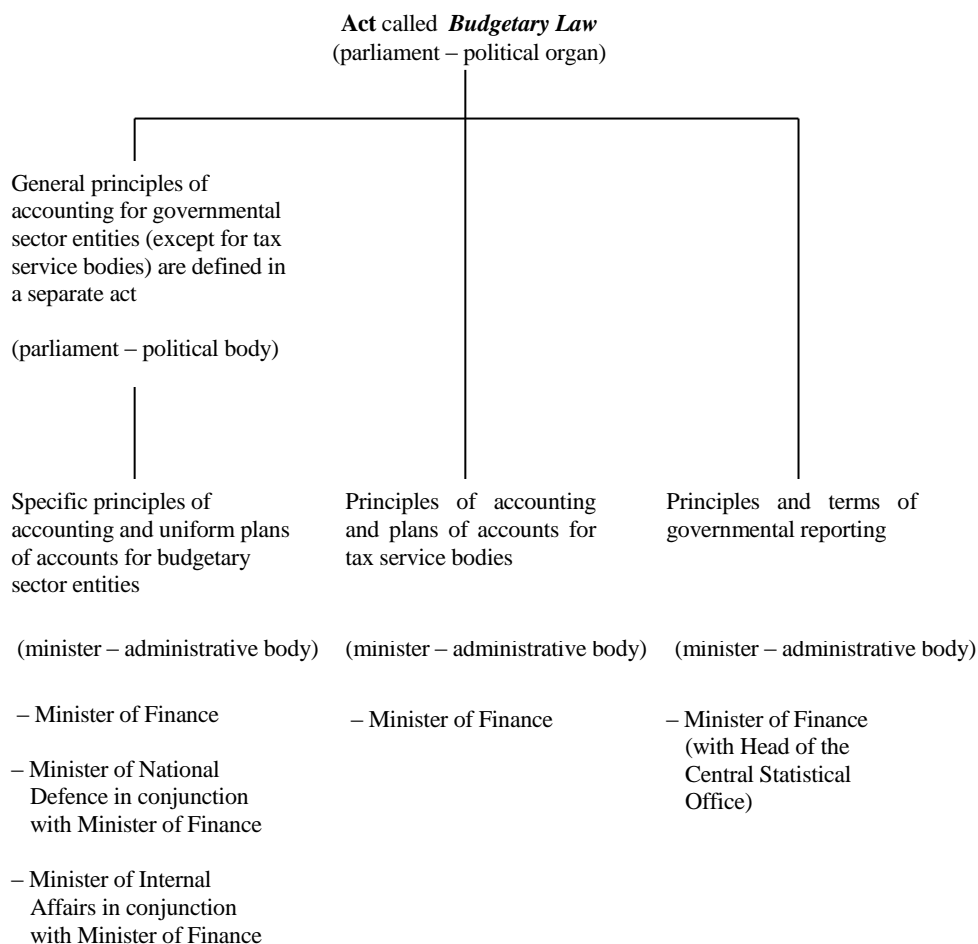
The above presented general rules indicate clearly that in order to achieve maximum clarity and precision in accounting for budget execution, the modified cash basis of performance measurement might be appropriate.

The Budgetary Law has empowered the Minister of Finance to determine principles of accounting for central and local government entities, with the exception of national defence and internal affairs departments. The parliament has so enacted that the Minister of National Defence and the Minister of Internal Affairs, respectively, in conjunction with the Minister of Finance, may determine specific principles of financial management for their budgetary and non-budgetary units, as well as the classification of budgetary revenues and spending, governmental accounting and liability for violation of budgetary discipline. However, the Minister of Finance with the Head of the Central Statistical Office lays down the rules and terms of budgetary reporting.

Parallel with the enactment of the 1994 Accounting Act, the Parliament changed the part of the Budgetary Law relating to the principles of accounting. The provision vesting the Minister of Finance with authority to determine the principles of accounting for budgetary sector entities was replaced by a provision stating that accounting

principles for budgetary sector entities, communes and their associations are determined in a separate legal act. The right of the Minister of Finance to determine rules and terms of budgetary reporting in consultation with the Head of the Central Statistical Office remained unchanged. In this way, principles of financial management and accounting in the governmental sector are regulated by the same body. At the same time, the Budgetary Law makes the Minister of Finance responsible for setting detailed principles of accounting and uniform plans of accounts for budgetary sector entities. The parliament has left unchanged the 1991 Budgetary Law provision on the possibility of independent determination by the Minister of National Defence and Minister of Internal Affairs of specific principles of financial management, budgetary revenues and expenses classification, government accounting and liability for breach of budget discipline for relevant budgetary and other budgetary sector entities. This means that accounting is generally regulated by the Accounting Act, with the possibility of certain modification of its rules to suit the specific character of some budgetary entities (civil, military or paramilitary). However, the Accounting Act does not apply to tax authorities. The amendment to the Budgetary Law, enacted parallel with the Accounting Act, makes the Minister of Finance responsible for determining accounting principles and plan of accounts for tax service entities.

The current situation in the area of government accounting and reporting regulation is shown in Diagram 2. The main feature of the present model of Polish government reporting model is the clear lack of interest of parliament in the financial statements prepared within government accounting systems. No requirement is set with respect to the form of such statements or even the need to submit or verify them. The Accounting Act empowers the Minister of Finance to introduce obligatory auditing of budgetary organizations' statements, but so far, he has not used this right despite his obligation to compile information on the state budget execution. The general implementation of the budget is generally supervised by central government. The Minister of Finance supervises the compliance of budgetary receipts and spending. Central budget execution is subject to parliamentary supervision, while local budgets are subject to commune councils' supervision. The Budgetary Law sets the requirement to verify budget execution after the first half-year and after year-end. Semi-annual control of the central budget is done by a designated parliamentary commission upon submission of the Minister of Finance's report on budget implementation (it also goes to the Supreme Chamber of Inspection). At the local level, parallel control is done by commune councils and – periodically – by regional account chambers. Annual verification of the state budget execution is done by parliament on the basis of the government's report on i.a. revenues and expenditure connected with budget accounts closures, and a collective report on the execution of local budgets, including a statement of revenues and expenditure resulting from the closure of local budget accounts. Annual reports provide a basis for granting exoneration to central and local administrative bodies.

Diagram 2. Regulation of Polish governmental accounting in 1995

Source: author's research.

9. Mid-1990s plans of accounts

Managers of public sector entities are required to introduce (adopt) and revise an entity's plan of accounts. The Accounting Act empowers the president of the central bank, head of the Securities Commission and the Minister of Finance, respectively, to set standard plans of accounts for non-budgetary entities. The Minister of Finance has not used this right so far. Upholding the standard charts of accounts in the budgetary sector indicates an attempt to standardise the information base for financial reporting. On the other hand, the statutory responsibility of heads of budgetary sector entities for working out (on the basis of standard charts), implementing and updating their units'

accounting charts requires that they adopt their own accounting policy. Two tendencies have occurred, i.e. standardisation and harmonisation. The Budgetary Law, however, requires the Minister of Finance to set standard plans of accounts for the budgetary sector. Currently, enterprise plans of accounts are based on standard accounting plans laid down by the Minister of Finance in 1995. Besides, the Minister of Finance published a separate plan of accounts for local budgets. As regards a plan for the central budget, we can only guess that it exists. Upon comparison, it becomes evident that the accrual accounting of local government units has been modified following changes in the scope and character of the public accountability of administrators and politicians, which are the result of a consolidation of the free market and democratisation tendencies. The cash accounting of the local government budget, however, has proved impregnable to pressures from enhanced public accountability.

10. The influence of the tax law

Accounting for public sector business entities is affected by tax regulations to a similar extent as the private sector accounting, excluding entities exempt from income tax and budgetary sector entities. On the one hand, the Accounting Act introduced principles of assets valuation and income determination, as well as deferred taxation. On the other hand, the tax system involves specific principles of recognition of revenues and costs of their realization, as well as strict principles of fixed assets and intangibles depreciation and adjustment of their value. This results in differences in the degree of accrual basis modification and the method of applying the matching concept. As a result, entities should make two kinds of book closures, i.e. economic and tax closures. They can make only tax closures, but this would result in limited credibility, as a consequence of the loss of neutrality of their financial information.

The tax law has the greatest impact on governmental sector units which generally are obliged to apply statutory depreciation rates and terms, amortisement and restatement. The following rules relating to the budgetary sector illustrate this:

- 1) depreciation of fixed assets according to rates prescribed in the provisions on income tax from legal persons, excluding:
 - a) books and library collections,
 - b) teaching aids,
 - c) clothes and uniforms,
 - d) furniture and carpets,
 - e) livestock,
 - f) other fixed assets, the value of which is defined in provisions on income tax from legal persons (now about 600 ECU) which are amortised only once by transfer to costs;
- 2) depreciation of intangibles according to the rule of the Accounting Act, but the depreciation period is stated in the provisions on income tax from legal persons.

Due to the overlap between the requirements of budget execution control, specific principles of accounting, and tax regulations, the financial information generated in the budgetary sector is oriented towards users from central government circles. The neutrality of such information is limited to a degree, significantly decreasing its economic credibility and reliability. The negative effects of this feature are extenuated by the fact that financial statements of budgetary sector entities are not published.

Conclusions

The governmental accounting system under a centrally planned economy was developed during the decade between the early 1950s and early 1960s, and modified in the 1980s. The next stimulus for its reshaping was given by the political and systemic changes at the turn of 1980s and 1990s.

In the mid-1990s, significant development of public sector accounting took place in Poland. A significant differentiation of the accounting system took place. New elements and relations appeared within the general framework of the Accounting Act, tax regulations and the Budgetary Law. The mode of laying down accounting and reporting principles changed, too. The adoption by parliament in 1994 of the Accounting Act and Act on Chartered Auditors and their self-government fully revealed the political character and significance of financial information in Poland.

A characteristic feature of the present situation is the dichotomous classification of public sector entities, first into those belonging to either the state or local government sector, and second, for entities outside the budgetary sector, into business and non-business entities. The dichotomy is evident if viewed from the perspective of e.g. the American or British regulatory system. If it is an immanent characteristic of free market democracies, then in the mid-1990s Poland joined this group of countries.

The accrual accounting of local government entities has been reoriented in accordance with enhanced public accountability of administrators and politicians. The transformation consists mainly in greater responsibility for maintaining the adaptive capacity of entities to changes in the environment, which means a clearer reflection of elements determining the financial result regarded as a source of surplus resources required for the adaptation. Recent changes enable improved management of budgetary entities, but have not led to the improvement of the budgetary sector reporting model. The cash accounting of local government budgets, by contrast, has proved impregnable to the pressures from a changed approach to public accountability.

With regard to the development of public sector accounting standards, determining factors in terms of efficiency of influence and importance may be ordered as follows:

- 1) central administration,
- 2) politicians,
- 3) EC Directives and IAS,

- 4) the academic accounting community,
- 5) accounting practitioners.

This hierarchy has been established on the basis of, among others, the generalised model of Polish public sector innovations. There is also a growing awareness of the economic implications of accounting standards setting, which means the realisation of the fact that the promulgation of some standard means a profit for some people and a loss for others. It follows, then, that accounting standards setting is as much a political choice as it is a technical one. Despite this fact, the question of determining what body would be the most appropriate for this task has not been raised in a public forum yet. Until now, there is still only one person employed in the State Budget Department of the Ministry of Finance who is responsible for the development of specific accounting standards for the budgetary sector.

One more issue which requires public discussion in Poland is the link between public sector accounting and the reporting system and statistical systems of the national accounts.

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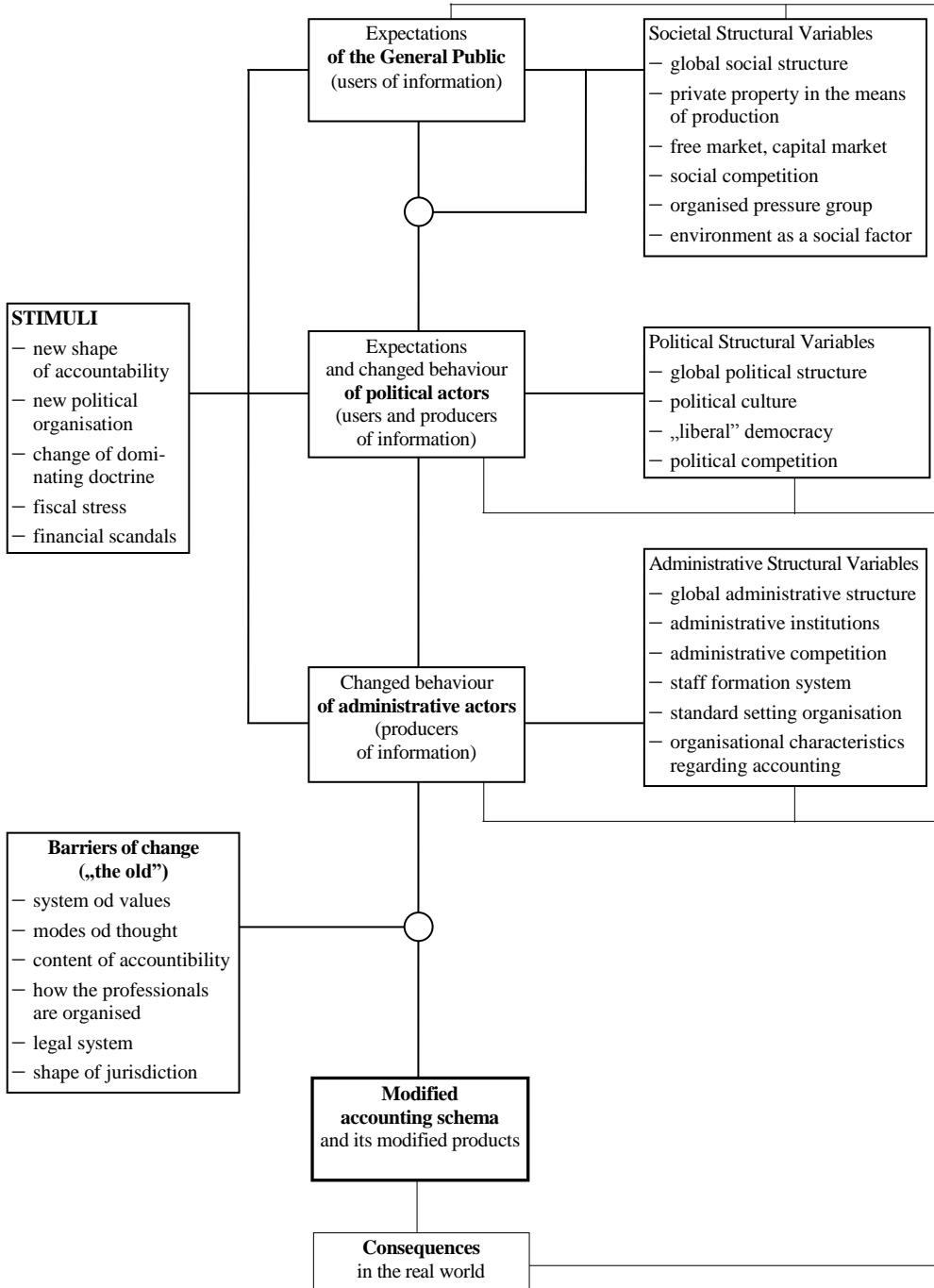
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Appendix 1



Source: author's research based on Jaruga, Nowak (1995c, pp. 88–101).