

## Accountancy in Poland in the period of the centrally planned economy. A few comments from experience

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### Abstract

This article presents comments on selected aspects of the accounting law applicable in Poland in the period of the centrally planned economy. They were made based on the interview with Mr. Zdzisław Fedak, PhD, a participant of the works on the systemic solutions in accountancy in the People's Republic of Poland (PRL). He is currently trying to stimulate improvements in the Polish accountancy practice in the conditions of market economy. The basic reason for this publication is the need to fill the gap in the picture of the surroundings and unique characteristics of accountancy in Poland in the period of the non-market economy, while taking into account the expertise and experience of the people who knew well the reality of those times. This text is a part of the trend to document the history of accountancy by means of the research method known as oral history.

**Keywords:** history, accountancy, centrally planned economy, cost accountancy.

### Streszczenie

#### Rachunkowość w Polsce w okresie gospodarki centralnie planowanej. Kilka komentarzy opartych na doświadczeniu

W tym artykule zaprezentowano komentarze do wybranych aspektów prawa bilansowego obowiązującego w Polsce w okresie gospodarki centralnie planowanej. Zostały one poczynione na podstawie wywiadu przeprowadzonego ze Zdzisławem Fedakiem, uczestnikiem prac nad rozwiązaniami systemowymi rachunkowości w Polskiej Rzeczypospolitej Ludowej (PRL), a obecnie animatorem doskonalenia polskiej praktyki rachunkowości w warunkach gospodarki rynkowej. Bezpośrednią przesłanką tej publikacji jest chęć przyczynienia się do wypełnienia luki w zakresie wiedzy o uwarunkowaniach i specyfice rachunkowości w Polsce z okresu gospodarki nierynkowej, z odwołaniem się do wiedzy i doświadczeń osób dobrze znających realia owych czasów. Tekst wpisuje się w nurt dokumentowania historii rachunkowości przy zastosowaniu metody badawczej znanej jako historia mówiona (*oral history*).

**Słowa kluczowe:** historia, rachunkowość, gospodarka centralnie planowana, rachunek kosztów.

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## Introduction

This text<sup>1</sup> discusses the history of accountancy in Poland and was written for four reasons. Firstly, because the history of accountancy confirms adaptability of accountancy reflected in creating such solutions which adequately meet the continuously changing needs of its users.

Secondly, in the Polish history of accountancy, the period of the centrally planned economy is a very special period, and, at the same time, it is relatively poorly recognized and documented in the literature<sup>2</sup>. Thirdly, it is possible to obtain historical information directly from both the witnesses and the participants of the development of Polish accountancy in that period. And finally, the memory of the not so distant past of Polish accountancy set against the facts that accompany us in this field shows the path and dynamics that Polish accountancy pursued in a relatively short development period in order to adapt its solutions to the market economy. It also indicates the need for a methodological examination of the factors driving the changes in accountancy and balance sheet law.

The latter is important because accountancy will be developed conceptually as long as the world develops economically, socially and culturally, and as long as those two forces stimulate each other and condition evolutionary processes, constantly moving the development of accountancy to the regions of the world with the most rapidly developing economies (Fesmiro, 1970, in: Burzym, 2008). The development of the science and law of accountancy must follow or – even more preferably – precede the development of solutions in the practice of accountancy. Undoubtedly, the history of accountancy impacts the directions (currently interdisciplinary ones) of the scientific research undertaken in the field of accountancy (Carnegie, Napier, 1996; Carnegie, Napier, 2012; Carnegie, 2014).

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<sup>1</sup> The text was originally presented in the Polish language in: A. Karmańska, *Rachunkowość w Polsce w okresie gospodarki centralnie planowanej – historia mówiona*, “Zeszyty Teoretyczne Rachunkowości”, 97 (153), 2018, pp. 161–177. It has been published in a (slightly modified) English version due to a belief that there is a need for a broader popularization of knowledge about accountancy which, as a systemic element of a planned economy, is not commonly known, although it has permanently become a part of Polish economic history. The translation was made by Ms. Danuta Olszewska-Ksionek.

<sup>2</sup> A kind of review of research conducted by different Polish authors in this field is provided, for example, in the publication [edited by M. Gmytrasiewicz, A. Karmańska] *Polska szkoła rachunkowości*. Szkoła Główna Handlowa – Oficyna Wydawnicza, 2004, which presents prominent members of the Polish scientific community as well as the development of Polish science, didactics and the practice of accountancy, including – partially – reference to the centrally planned economy of the interwar period.

## 1. Oral history as a research method

In the light of the saying “one does not have to like history, one has to know it”, the author has already made an attempt in the past to document certain issues from the history of accountancy in the period of the centrally planned economy (Karmańska, 2004, Karmańska, Łazarowicz, 2015), but, this time, for the first time, she is using a recorded interview.

The method of oral history is original because it is based on human memory, so it helps to construct a new vision of the future or modify and supplement the existing vision. The cognitive value of this approach results from the fact that the witness of the history together with the researcher create a message (recorded as sound or audiovisual material) based on personal experience and views (Nowak, 2011). By using the research advantages of oral history, it is possible to enrich the Polish history of accountancy, and help to supplement and perhaps also understand the sources of the Polish history of accountancy based on documents and material evidence.

The above view and the personal relationship with Dr. Zdzisław Fedak were decisive factors in using the *oral history* method in the historical research, the results of which are presented below. However, the adequacy of this approach is also confirmed by the fact that in historical research in accountancy, the method of *oral history* has been applied very rarely (Collins, Bloom, 1991), although it is valuable because it allows the author to strengthen a written story by identifying “at source” any political, economic and other factors which could impact the legislation regarding accountancy. Additionally, the author claims [and this view is not uncommon, not only in Poland (Hammond, Sikka, 1996)] that traditional stories usually ignore both the influence on and contribution to the changes in the accountancy of individuals. Typically, the actions of impersonal institutions and organizations active in this field are reported. There are a few exceptions which are referred to by Hammond and Sikka as heroes of accountancy. However, oral reports are important because they are focused on individual experiences, interpretations, reactions and aspirations. By listening to and commenting on them as well as presenting their results, the history of accountancy is being objectified (Hammond, Sikka, 1996).

Dr. Zdzisław Fedak, playing the role of a witness of the history of accountancy, knows and remembers perfectly its development in the period of the centrally planned economy. As a person participating in creating this history, he is an invaluable source of information and reflection. It is enough to mention that Dr. Fedak, right after the liberation – 15 February 1945 – worked in the accounting units of different unions and enterprises and the Central Board of the Metal Industry. Then, he moved to the newly established Bureau of Accountancy Organization (BOR), led by the master of Polish accountancy Prof. Stanisław Skrzywan. In 1952, after the dissolution of BOR, he moved (with others) to the Accounting Department of the Ministry of Finance, where – holding a managerial position – he had a strong influence on the shape of the law of accountancy which was being developed. Another relevant fact is that from 1951, he

was a member of the editorial committee of the Bulletin of the Bureau of Accountancy Organization, which became the magazine “Rachunkowość” (Accountancy) after the liquidation of BOR, and Dr. Fedak became an editor in chief of the new magazine after prof. Stanisław Skrzywan and Zdzisław Paryziński. “Rachunkowość”, whose task was to support the development of accounting practice, was closely connected with the Ministry of Finance and, at the same time, was a body of the Accountants Association in Poland. These links and personal predispositions of Dr. Fedak brought excellent publishing fruit, full of content with an impact on the accounting practice of that period (*Rachunkowość i ja*, 2013, p. 12). Despite the political changes in Poland, the continuous work and devotion of Dr. Fedak allow us to continue these achievements. After retirement, he is still an editor of “Rachunkowość”, an active participant in the works of the Accounting Standards Committee – which supports the Minister of Finance, where he uses his theoretical knowledge and rich experience – and an active member of the Research Council of the Accountants Association in Poland.

## **2. A synthetic picture of the period of the centrally planned economy in Poland**

Political and economic changes in Poland began in 1989 (nearly 30 years ago). We already know the market conditions of the economy and have studied their influence on accountancy, both in legal and practical aspects and in the scientific field. It is worth comparing this knowledge with the picture of accountancy that was present in Poland for 44 years of the system based on central planning and the nationalization of almost the whole economy.

Trying to show a synthetic picture of the Polish centrally planned economy, it is worth mentioning again two opinions, even though they have already been presented by the author in another publication. Kaliński (2009, p. 71, in: Karmańska, Łazarowicz, 2015) writes about this period: “Theoretical and propaganda cannons of the centrally planned economy included the thesis that it is resistant to business cycles that capitalist economies need to face. It was underlined that implementing national property and planning eliminated the drawbacks of the market economy. Syryjczyk also claims that (Syryjczyk, 2002, in: Karmańska, Łazarowicz, 2015):

- the economy was closed to external influence, and the operation of the internal market was limited;
- private services and trade were allowed within public activity in a limited and strictly regulated scope, like crafts;
- a significant part of prices remained under control;
- there was a system of division and quotas for “goods in shortage”, meaning those goods for which the demand was not satisfied as a result of restricted market mechanisms;

- the system of exchange within the communist block was economically illegible, which made it impossible to properly assess the profitability of international trade and the effectiveness of the national economy;
- the regulations applied in the economy were strict and unstable;
- in the late 1970s, the communist regime started very carefully to give permission for foreign investments in Poland and it partially broadened the possibilities of operation for domestic private initiative; [An encyclopedia published in Poland in the 1970s stated: Economic planning eliminates the phenomenon of impulsiveness of development and removes all symptoms of economic crunches and crises which are typical for capitalist economy (*Mała encyklopedia ekonomiczna*, 1974, p. 550)];
- compared to other communist countries, Poland had the biggest private sector, and agriculture was only partially nationalized and mostly remained in private hands;
- the autumn of 1989 was characterized by a rapidly increasing budgetary deficit and the first symptoms of the coming recession.

“The second half of the 20th century – the period of the Polish People’s Republic – was an episode turning Poland economically away from the West, and the last decade of the 20th century was the beginning of going back to normal history, where Poland was not the richest country in Europe, but its distance from the top was reasonable” (Syryjczyk, 2002; Karmańska, Łazarowicz, 2015).

### **3. About accountancy in the period of the Polish People’s Republic – general remarks**

The accountancy applied in Poland in the period of the Polish People’s Republic (PRL) (1945–1989) as a system of tools was not much different to the accountancy used in countries with a market economy. However, there were also solutions resulting from the central planning in the PRL, and the most important ones are described in this paper. But first, we would like to present some information to introduce the subject.

In the PRL, the vast majority of enterprises were held by the state and cooperatives, but, in fact, they were dependent on the state. They functioned based on the principles of economic account settling, i.e., the financial self-sufficiency and self-funding of an ongoing activity; they determined revenues, costs and result; achieving above-plan profit was rewarded. The rest of the profit was almost entirely paid to the state budget. Enterprises were provided with a fund (equity) to cover fixed assets and a level of current assets that was considered reasonable. However, in contrast to the market economy, the decisions on the production volume and range as well as physical investments were made at the central level, and the investments were subsidized. Using a bank account and loans (in the National Bank of Poland for operational activities and in the Investment Bank for physical investments) was obligatory, which gave banks the possibility to control enterprises on an ongoing basis and report any irregularities to the

state authorities. Enterprises kept accounting books, using double-entry bookkeeping, and prepared financial statements composed of the balance sheet and a comparative profit and loss account<sup>3</sup>.

The legal provisions regulating accountancy had a rank of ordinances and decisions of the Minister of Finance, and those including a broader thematic scope had the status of an ordinance of the Council of Ministers. The Minister of Finance played a double role: a representative of state interests (budget, statistics etc.) and owner. Laws were developed by the Accounting Department of the Ministry of Finance. Enterprises commonly used typical charts of accounts, different for different divisions of the national economy (industry, construction, trade, agriculture), developed by the Accounting Department, which determined the list of accounts, content of entries, balances and the correspondence of individual accounts. Keeping such records was mandatory because it was necessary to prepare financial statements.

The basic principles of today's accountancy were also applied in the PRL, but less rigorously. For example, accrual accounting was applied much more realistically and practically than today. In economic entities, except for bank interest, accrual accounting was not often used for other interest. The cash method was applied instead. As for provisions, only those for warranty repairs, mining damage and annual bonuses were known; there were no factual bases for creating other provisions.

A similar approach was taken to the prudential measurement of assets. Prudentiality involved taking into account practically only physical damage or the expiry date of certain assets of an enterprise. Due to the general shortage of consumer and investment goods, obsolescence was not always an obstacle for selling goods and it did not shorten their useful life. The measurement of inventory was at the price/cost of manufacturing, not higher than the selling price. Also, it was not necessary to perform write-offs of receivables, which does not mean that there were no disputes or payment gridlocks<sup>4</sup>. Providing credit to receivers was absolutely excluded, and no policy in this scope was used. A receiver was obliged to pay within 30 days. With very few products available, no one needed to be encouraged to buy.

Every enterprise was guaranteed to be treated as a going concern, although its directors were often and suddenly dismissed. Simply, there was no threat of bankruptcy, so there was no need to wonder about being a going concern or measures to be taken in the case of non-existing bankruptcy or liquidation.

Accounting in the PRL was performed mainly for three reasons. Firstly, economic account settling, i.e., financial self-sufficiency and self-funding, required an appropriate information system. Secondly, enterprises needed a system that enabled them to control the property entrusted with them. Thirdly, although material planning was the

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<sup>3</sup> Budgetary entities conducted double entry bookkeeping and accrual (not cash) accounting, which are very modern solutions. It will not be discussed further.

<sup>4</sup> Payment gridlocks were caused mainly by above-plan company losses or lack of funds for pending investments. The National Bank of Poland tried to combat them by giving loans and limiting compensation of receivables and liabilities.

most dominant form, it was necessary to apply value conversion rates, in the light of functioning money exchange, because only this way could all the objects of material planning be expressed in one measurement. To control the fulfillment of plans and as a basis for future planning, a central planner used, among other things, financial reporting. But there was no company accounting policy of enterprises despite the obligation to prepare company charts of accounts based on the typical charts of accounts.

Accounting in the period of the PRL faced four challenges resulting from the centralized planning of the economy. These were: (1) control of the efficiency of enterprises, especially manufacturing ones, with the use of cost accounting, (2) steering payroll, (3) control of investments (including international trade) and (4) protection of property.

## **4. About accounting in the Polish People's Republic comments on specific aspects**

### **4.1. Cost accounting**

To properly understand the tasks of cost accounting in the conditions of a centrally planned economy, it is worth mentioning some characteristics of this type of economy relevant to this area of accounting.

First of all, decisions regarding manufacturing and investments were taken at a central level, which basically absolved enterprises – the executors of these decisions – from the responsibility for their effectiveness.

The economy was also characterized by the above-mentioned shortage of goods, i.e., a severe scarcity of goods in the market, and some consumer goods (temporarily) and investment goods (permanently) could only be bought with ration coupons.

The pricing policy was incompliant with market rules that determined supply and demand. The market prices of most foodstuffs, consumer products, apartment rents, and electricity, etc. were centrally shaped so that citizens receiving low salaries could afford them and survive. To moderate the shortage of goods, obsolete and uneconomical machines and equipment were used in manufacturing. It was important that they – despite all of this – “work and produce.” Each company had to produce, and its planned profitability was regulated (economic accounts settling) up or down with subsidies to prices or taxes, depending on whether the market price decided on a central level (selling price) of its products being lower or higher than its “ex-works price” (cost price) determined by the cost of manufacturing of a given enterprise or group of enterprises. The differences between the selling prices and the ex-works prices were settled from the budget – as a tax or subsidy. For investment goods, selling prices were equal to ex-works prices.

So, there were two categories of prices: the selling prices and the ex-works prices. The selling prices, as mentioned above, originated from the centrally-fixed market prices and were used in trade. The ex-works prices applied to producers. They covered

the producers' expenses which were considered reasonable and ensured a safety margin in the form of a profit. As a result, two requirements for company boards were especially strict: the requirement to individually determine the costs necessary in the conditions of a given enterprise, to avoid covering with an ex-works price those costs which are not necessary and which are ineffective and stimulate the decrease of costs. It was supposed to drive enterprises to effectiveness, suppressed by decisions taken at the central level. These requirements were essential for shaping cost accounting. Its first consequence was to classify costs with a whole range of costs excluded from the basis for determining ex-works prices. These included costs from prior periods, additional (secondary) activities and unnecessary and incidental costs, which were called "extraordinary losses", so that the name itself would be scary. To disclose provisions, it was required to separate the costs of defective production and the costs of downtimes, failures and other disruptions of production which were recognized as non-production costs in another item of general costs.

Accountancy had to ensure recognition of these cost categories, documenting them in detail and separating them. That was the idea; in practice, this was not so easy.

The necessity to take into account costs which were individually necessary in the conditions of a given enterprise (its location, structure/formula, technology of products and manufacturing equipment) encouraged them to introduce, as broadly as possible, in enterprises with repetitive production, a type of overhead account, called normative costs, as costs similar to the individually necessary costs. This type of cost accounting developed in the USSR, in contrast to the solutions applied in the market economy, and was implemented in a much more complicated version. This was due to the frequently changing norms. Firstly, the norms were changed because, in the light of problems with supply, features – and consequently processing methods of products – were unstable. In the beginning, it caused deviations, and finally it led to changes of the norms. The second reason for changing the norms was of an "ideological" nature. Factories were expected to decrease costs all the time. And the implementation of technological progress was confirmed by the changes (downwards) of norms determining normative costs. It was unacceptable to claim that a further decrease of costs was impossible because the norms were already tight.

Consequently, the norms of costs could not be stable in the long run also for that reason. If the lower norms had not been introduced, it would have meant that the company did not make progress.

Normative cost accounting faced hostility from enterprises not only because it was time-consuming, but also because of external inspections. To understand it, one needs to imagine two situations. An inspector who typically does not know much about costs goes to the first enterprise, which did not have an account of standard costs, and to the second enterprise which did use such an account. In the first case, the inspector is helpless, lost like a child; he needs help to identify a lot of things. In the second case, he takes a dominant position because, based on the changes of the norms and deviations recognized in the account of normative costs, he can show what unfulfilled potential the enterprise



has and, on this basis, prepare a report which might have negative consequences for the enterprise. So, the enterprise which used the account of normative costs in accordance with good practices made a rod for its own back. A manufacturing company which did not use normative costs (and it was the majority of companies) used traditional cost accounting within its accountancy system. In the processing industries, the weakness lay in the vast freedom to choose options of accounting for indirect costs.

## 5. Payroll

Keeping employees' salaries (payroll) within fixed limits was a political issue; the goal was to balance the goods available in the market with the money mass.

In the PRL, the vast majority of workers lived very modestly and expected their salaries to grow. The enterprises should have provided such growth, justified by the increase in work efficiency. The government should have ensured that the salaries and their growth were suited for the goods available in the market.

In this situation, great attention was paid to the task of payroll regulation which was fulfilled by the National Bank of Poland. While for budgetary or trade administration entities it was possible to determine a limit on the amount of remuneration which could not be exceeded, in manufacturing companies, the payroll limit had to be flexible not to brake the growth of production. It was necessary to take into account the increase of work efficiency and other parameters that had impact on the growth of salaries. So, industry and construction used a moving limit of payrolls.

The regulation of payroll had an influence on accountancy because the payroll limit was determined as a percentage of the production sold by an enterprise, which had to be documented and reported by accountancy. Determining such a limit explains some solutions which are still used in practice but whose origins are hardly remembered anymore. It led to the situation where products sold, i.e., goods manufactured by other enterprises, were not recognized as other costs by type, but they were directly referred to as costs of sale. The goal was to avoid the influence of goods sold which were not produced by the enterprise on the relationship between the payroll and the value of the products sold. This was because only the production of products and services justified the payroll costs of a manufacturing enterprise related to production, and sale of such products and services was the basis for determining the payroll limit. Therefore, the sale of products (including packaging) and the services of subcontractors in construction was recognized separately from the value of the production sold. Another solution was to record by accounting only those salaries which were actually made available to employees, e.g., until the 10th day of the next month, which breached the accrual accounting principle. The provisions for bonuses could not be recognized as costs by types.

The will to stabilize staff and create a good working atmosphere caused constant pressure exerted by the enterprises (and not only the employees) on the growth of salaries. Because the value was considered to be a measure of the volume of production sold, to

increase sales, companies preferred to produce material-consuming products, increase their scope of cooperation and avoid manufacturing new and work-consuming products whose production was not yet mastered.

In order to control the mass of money potentially shaping demand for some time – but unsuccessfully in the long run – the category of added value was applied to the payroll regulation. It was determined by the difference between revenues from sales (called turnover) and the costs of material usage.

### **5.1. Investments and depreciation**

The concept of investment in the PRL was narrower than that applied today. It included the construction and purchase of fixed assets. Investments, as a condition for rebuilding Poland after war damage, the transformation from an agricultural country to an industrial and agricultural country, and housing development, were the pride of the government. Due to material limits (production capacity) and financial limits, investments were strictly rationed. Usually, plants and industrial units were built from scratch instead of restoring the existing manufacturing potential of old factories<sup>5</sup>. So, underestimating costs of investments was often a strategy used to “enter” the investment plans. As a result, investments turned out to be much more expensive than the price that had been quoted and progress was very slow. All of this justified exerting special control over investments, which was conducted by accounting by way of separating accounts for recording:

- the investment process (Started Investments, Accounting for Investments, Credit: fixed assets released for use),
- financing investments, only from specially separated funds of the Investment Bank (Account of Investment Funds, Investment Settlements, Investment Loans with the division for facilities under construction, in the period of repayment, and Investment Fund).

The accounting scheme was as follows:

- when obtaining funds for the investment, a debit entry was made to the Account of Investment Funds, and a credit entry was made to the Investment Fund; however, when the company used its own funds which came from profit or depreciation, a debit entry was made to the Account of Investment Funds, a credit entry was made to the Account of Development Fund Means, a debit entry was made to the Development Fund, and a credit entry was made to the Investment Fund,
- when conducting investment works, a debit entry was made to the Started Investments, and a credit entry was made to the Investment Settlements; and, at the moment of payment, a debit entry was made to the Investment Settlements, and

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<sup>5</sup> Such practice was, however, often justified by either economic balance, or technological necessity. The old solutions were inadequate in the conditions created by the new technologies.

- a credit entry was made to the Account of Investment Funds, or a credit entry was made to the Investment Loans – for objects under construction,
- when putting the ready investments to use: a debit entry was made to the Fixed Assets (in the case of modernization and rebuilding, a debit entry was made to the Depreciation account), a credit entry was made to the Settlement of the Investment, and simultaneously a debit entry was made to the Investment Fund, and a credit entry was made to the Statutory Fund (equity).

The analysis of entries on these accounts gave a general picture of the process of investing (Debit Balance of the Started Investments account), the effects achieved (Credit Balance of the Settlement of the Investment) and the method of funding it.

Capital works – an intermediate category between investments and routine repairs – were especially problematic. At first, they were separately funded, and depreciation rates were composed of one part dedicated to restoration and one part for financing capital works.

To paint the picture of the problem of capital works, we will refer to a true story. During a consultation visit of a group of Polish accounting specialists in the Institute of Planning in Czechoslovakia, one of its directors strongly criticized the approach according to which capital works, meaning simply bigger repairs, are considered investments. He argued that this solution contradicts the principles of rational repair management because it breaks the bond between routine repairs and bigger repairs, and it encourages the company to exploit machines to their performance limits (it was even called running the machines into the ground). The company would also have to periodically perform much more expensive capital works which do not affect the financial result instead of routine repairs because they are recognized as costs. At the end, the Polish participants of the meeting asked why such a system was maintained in Czechoslovakia despite so many disadvantages, and the answer was: “The problem is that as long as the turnover of directors is faster than the rotation of fixed assets, this solution is the only way to protect fixed assets from being destroyed.” A routine repair, on the one hand, means non-production, and on the other, additional costs. So, it can be claimed that a repair results in a decrease in production and an increase in expenses, which is detrimental to the company. The time frame for a director of an enterprise was limited to the current activities because he was accountable for them. So, it was more beneficial to consider big works as investments.

In Poland, quite soon thereafter, the funding of capital works from current assets, charged to costs, was applied.

In this light, recording solutions in the scope of depreciation adapted to the needs of centralized investment management is especially interesting.

Depreciation (in fact, only the straight-line method was used) was calculated as it is today, with the use of uniform rates which were different, depending on the types of fixed assets. (Most of today's tax rates come from those rates).

There were 3 clearly defined functions of depreciation:

- measuring the consumption of fixed assets (accumulated depreciation), resulting in a debit entry in the Statutory Fund (equity) where the equal value of the objects released for use was put, and a credit entry in the Accumulated Depreciation account<sup>6</sup>;
- moving depreciation to the costs of revenues resulting in a debit entry in the Costs account and a credit entry in the Depreciation Settlement account;
- financing restoration; if the equal amount of depreciation remained in the enterprise, it resulted in a debit entry in the Depreciation Settlement and a credit entry in the Development Fund/for investments/for capital works (and at the same time, financial means were earmarked by a debit entry in the Development Fund Means and a credit entry in the Current Account. Means from depreciation could be used to fund current operations). Usually, only a small part of the depreciation remained in the enterprise, and the rest was centralized at the level of industry or state, which resulted in a debit entry in the Depreciation Settlement and a credit entry in the Current Account. What was the reason? A newly-built enterprise or production division, in their first years of operation, did not need depreciation (which was returned to them as a part of the price of the products sold) to restore worn-out property, and – as mentioned before – using depreciation to fund current assets was considered improper.

## **5.2. International trade**

Due to the scarcity of consumer goods and commodities in Poland, the lack of specialist machines and equipment necessary for production, and the specialization of the Eastern Bloc (Comecon) in the production of investment goods, imports played an important role in the PRL. And to be able to import, the country had to export. And this resulted in a great significance of international trade.

This area, important from the economic and political perspective, was constantly the center of attention for the government. The whole sphere was a monopoly of centers of international trade, specialized by industries whose accounting recognized transactions in zlotys and foreign currencies; it was also the source of exchange rate differences and the differences between ex-works prices and selling prices in the case of exports. It enabled easy monitoring of international exchange. In the last years of the PRL, direct

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<sup>6</sup> By the way, because of the depreciation principles, in the enterprises which worked on obsolete fixed assets, implementing technical progress was sometimes not economical. If the production used old, fully depreciated machines, there was zero depreciation, and the product was linked with a lower cost. If the enterprise received new machines, and they were not “fantastically advanced” (and usually they were not), the cost of depreciation made production significantly more expensive. Technical progress was not profitable as production on older machines was cheaper and could be more beneficial for the enterprise. It also meant the increase of the ex-works price, which was often not accepted by the authorities. Therefore, for some time, depreciation was calculated from the fully written-off fixed assets. Consequently, the first function of depreciation did not work.

contact with foreign countries was a right given to certain enterprises: important exporters<sup>7</sup>. An enterprise buying specialist machines and equipment abroad dealt directly with foreign suppliers (which involved opening letters of credit, providing advance payments, paying for supplies and handling exchange rate differences). At the same time, to encourage the production of goods which were demanded abroad, a percentage of revenues from export – in a foreign currency – was available to these enterprises, which allowed them to make purchases in emergency situations. These solutions led to the emergence of the Domestic Account in Foreign Currencies in the books of enterprises. Because settlements with foreign economies were concentrated in centers of international trade, exporting and importing enterprises used only zlotys in their settlements.

It is worth mentioning that, in the PRL, to underline the significance of international exchange, there were books published on the accounting of international trade companies, which especially emphasized such issues as the concepts and classifications of international settlements, basic questions of recording, cash and non-cash settlements, foreign-exchange settlements and offsets, payment rules, the settlement of import and export and other issues.

### 5.3. Protection of property

The hunger for products “excused” theft and the abuse of position in so-called socially owned enterprises which were, in fact, state owned, i.e., they were not fully empowered. Thus, the protection of the enterprises’ property was a priority. Accountancy was supposed to be a guard of the state’s property and it resulted in large scale quantitative and qualitative recording of inventories. Although it is the most expensive form of recording, it served operative purposes too rarely. In turn, stocktaking not only determined the real condition and usability of property, but it also held accountable the people who managed this property<sup>8</sup>. In the retail trade, sellers were materially responsible for commodity shortages which exceeded industry standards of losses, natural losses and thefts<sup>9</sup>. In the light of numerous disputes and trails in this regard, there was a whole “science” of shortages, surpluses and accounting for them which is not discussed at all in the professional literature.

It was especially difficult to protect non-durable goods, i.e., items which have the characteristics of fixed assets, but, due to their low price, were not classified as such. It was uneconomical to individually record these resources (they were recorded collectively), but in large numbers, they were too valuable or hard to obtain to stop protecting

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<sup>7</sup> Some sort of privileges which allowed companies to maintain relations with foreign entities were also present in the 1960s. Their scale was small.

<sup>8</sup> The stocktaking of fixed assets usually showed surpluses caused by the undocumented use of some investments and resulting from the fact that the company made the investments, using its own means and writing them off as costs.

<sup>9</sup> The standards relating to losses caused by customer theft appeared with the emergence of the – new for the Polish economy but common in Western countries – self-service sales model.

them. They were included in the quantitative and qualitative recording, so the accounting function paid the proper attention to them. Quantitative recording only was not sufficient because it would not entail accounting control, and a part of the property would escape supervision. This problem was known as “protecting the property’s integrity.”

### **5.4. Reporting**

Financial reporting in the PRL was prepared monthly or quarterly and annually. However, its scope – as mentioned above – was limited to the balance sheet and profit and loss account. Companies did not prepare notes or cash flow statements, which is still not prescribed in EU directives.

There was no statement of changes in equity (statutory fund) because the question of equity (funds) practically did not exist in the PRL.

Data for financial statements were based on accounting books, with consideration of adjustments resulting from stocktaking.

What is interesting is who analyzed these financial statements and for what purpose. At the level of enterprises and associations (corporations), the focus was mainly on performance indicators, such as sales, level of costs, work efficiency, inventory turnover and investment progress. At the central level, attention was paid to costs by type: their level, differences between selling prices and ex-works prices, progress and the course of investment funding. Financial statements and accounting books were annually audited by certified accountants (working on a daily basis as accountants or auditors in enterprises other than those which they audited), and subsequently, they were approved, and the profit was divided. These audits were organized by units equivalent to today’s tax chambers.

### **5.5. Prestige of the accountancy profession**

In the PRL, accountants, despite the necessity to have relatively wide knowledge<sup>10</sup>, were undoubtedly undervalued, despite the huge burden of tasks conferred on them: time-consuming quantitative and qualitative reporting, detailed cost calculations, sometimes normative costs accounting, monthly reporting, and all of this without machines and for a low salary. Overtime was a common problem for accountants. Social prestige was low. A heartless bean counter wearing sleeve protectors was a symbol of a bureaucrat; they were standard scapegoats for the media.

While today lawyers are dominant, which means that everything has to have a legal basis, as legal provisions are more decisive than logical thinking, the PRL was dominated by technicians because production relied on them. The market did not exist, so

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<sup>10</sup> In contrast to today’s situation, knowledge about taxes was not especially necessary, and the legal provisions were much simpler. Besides, accountants did not have to be able to use computers because there were practically no computers.

there was no pressure on the rationality of the structure of products and the technology of manufacturing. It was replaced with slogans and campaigns. As a result, there was no real big demand for economic data, the tax authorities were not very demanding with socially owned enterprises, and the accountant was the person who, in many cases, had to say “no” to the management. Having said that, it becomes clear why this profession was often undervalued with all the consequences that entails.

### **5.6. Timeless issues – integrity in accounting**

In the PRL, of course, there were different scandals, and in some of them, accountants were involved. It was even said that if there was no accountant involved in a “scam”, this accountancy was not effective, as abuse in the enterprise could go undetected by accountancy. It meant that accountancy had not taken hold in such a company and did not control everything properly. Of course, we are not referring to situations when a manager of a supply department accepted a bribe from a supplier and purchased materials from that particular supplier and confirmed the receipt of the materials that were not delivered. It is impossible to disclose this using accountancy.

## **6. About accountancy in the transformation period**

The accounting principles applied in the PRL could not be used in the new political system without any or with only small changes. The system of accountancy serving enterprises in the free market and the people who provide these services faced constantly changing tasks that the system had to perform. Nevertheless, the knowledge and skills gained by accountants in the PRL, and the documentation of the system of economic events and bookkeeping applied in the PRL, enabled them to – quite painlessly – adapt to the new conditions. The current principles of recording and accounting are definitely more complex, but the competencies obtained and with the aid of better and better equipment, made working in accountancy easier and more financially attractive.

## **Conclusion**

The above views present the history of accountancy in the period of the centrally planned economy, in such an area where its eyewitness, Dr. Zdzisław Fedak, sees its key and unique solutions, reflecting the specific nature of this economic system. As someone who initiated many accounting solutions applicable back then, and a guard of their professional quality, Dr. Fedak has an excellent and in-depth knowledge of the accountancy from this period, including the perspective of work in the ministry. This fact is even more valuable as few people could look today at the accountancy in the period of the centrally planned economy from another perspective than the one limited

to defining the changes in the (back then) uniform charts of accounts and instructions regarding cost accounting. It is a demanding task to comment on the systemic solutions that had a key influence on the shape and changes of accountancy of that period.

The solutions which were justified by the objectives relevant to the centrally planned economy were not and are not clear and well known. These solutions – when Poland returned to the market economy – were consigned to history. However, it is worth remembering them because history gives us irrefutable evidence that accountancy is a flexible and universal tool and that can be used in so many different ways.

The new model of economy quickly pushed out the solutions which limited its development. It also concerned accounting law, where changes were intensely introduced and influenced by the solutions present in the practice of accounting in western countries. No matter how we might comment on the above observations and reflections regarding that period in accountancy, we cannot deny that it was due to the high professional competencies of people educated and active in the profession in the period of the centrally planned economy, and engaged in accounting, that the transformation from the command economy to accountancy which fulfilled the needs of enterprises functioning in the market economy was successful and practically seamless. The transformation was even easier because accountancy is a tool of science, free from ideology, in the same way medicine is.

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