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Practical implementation of Wilhelm Osbahr's entrepreneur balance sheet theory assumptions – a case study

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Abstract

The aim of this study is to present the possibilities of the practical application of Osbahr's balance sheet theory assumptions, as one of many possible attempts to close the information gap in the financial reporting of the twenty-first century. Wilhelm Osbahr, at the beginning of the 20th century, made an attempt to solve the problem of indicating the balance sheet values (the impact of balance sheet evaluation on the balance sheet items), from the point of view of an entrepreneur or business owner, at the same time clearly emphasizing the necessity to deal with the balance sheet structure through the prism of the objectives pursued by the company. Osbahr postulated highlighting any changes occurring in the economic structure of the company and its components, which do not result directly from its operating activities, and so to present them in the position called "adjustments". This article uses the deductive method supported by literature studies and a case study method. The authors using the case study method confirm the possibility of using the described balance sheet theory in the current financial reporting based on actual data of the company ABC Ltd. They also show that a balance sheet which is presented according to the new reporting formula discloses new quality of information for the financial reporting users.
Keywords: Wilhelm Osbahr's balance sheet theory, significant operating activity, insignificant operating activity, significant operating result, insignificant operating result.

Streszczenie
Praktyczne zastosowanie założeń teorii bilansu przedsiębiorcy według Wilhelma Osbahra – studium przypadku

Celem artykułu jest przedstawienie możliwości praktycznego zastosowania założeń teorii bilansowej Osbahra jako jednej z wielu możliwych prób zamknięcia luki informacyjnej w sprawozdawczości finansowej XXI wieku. Wilhelm Osbahr podjął na początku XX w. próbę rozwiązania problemu oznaczenia wartości bilansowych (wpływu wyceny bilansowej na pozycje bilansowe) z punktu widzenia przedsiębiorcy, tym samym wyraźnie podkreślając konieczność rozpatrywania struktury bilansu przez pryzmat celów realizowanych przez przedsiębiorstwo. Osbahr postulował, aby w bilansie uwydatnić wszelkie zmiany, zachodzące w gospodarczej strukturze przedsiębiorstwa i jego częściach składowych, niewynikające bezpośrednio z prowadzonej działalności operacyjnej i prezentować je w pozycji „korekty”.

W artykule zastosowano metodę dedukcyjną, wspomaganą studiami literatury oraz metodę studium przypadku. Autorzy wykorzystując studium przypadku, potwierdzają możliwość wykorzystania opisanej teorii bilansowej w obecnych realiach sprawozdawczych, na podstawie rzeczywistych danych spółki ABC Sp. z o.o. Wykazują również, że bilans zaprezentowany według nowej formuły sprawozdawczej ujawnia użytkownikowi sprawozdań finansowych inne jakościowo informacje.
Słowa kluczowe: teoria bilansowa Wilhelma Osbahra, działalność istotna operacyjnie, działalność nieistotna operacyjnie, wynik istotny operacyjnie, wynik nieistotny operacyjnie.

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Introduction

For a long time, the literature of the subject has underlined the crucial influence of accounting theories (Samelak, 2004, pp. 27–28), especially the German balance sheet theories (Scheffs, 1938), on the „philosophy of thinking" in the process of shaping modern financial reports. Financial reporting of the 21st century is moving towards the creation of business reports (expanded financial reports), meaning multi-faceted and detailed studies presenting relevant information for a given group of recipients, which can also be flexibly adapted to the information needs of the user (Śnieżek, 2008, pp. 89–93). They form the basis for the assessment of „business performance", enabling the efficient verification of the status and monitoring of the level of achievement of strategic business objectives pursued by its management. The expanded financial report is a natural consequence of the changes occurring in accounting, in which the dominant role is played by global markets, global investors and international law.

The balance sheet, one of the many components of the business report, is, from its inception, the area which indicates the financial capabilities and structure of sources of financing for the company, but in the course of the transformations taking place in the economy, its form has not undergone any significant changes yet. You would think that the structure of that element of the financial statements is considered to be extremely flexible, one that well reflects the effects of various global economic developments. The subject of balance sheet theory was particularly embraced by German scientists who created the basis for static and dynamic balance sheet theories (Zadroga, 1981, pp. 83–96; Schweitzer, 1990, pp. 877–886; Schweitzer, 2000, pp. 169–175; Glautier, 1999, pp. 24–25). Many scientists, for example Osbahr and Sewering, have gone beyond the established schemes for the dynamic, static or organic balance sheet theories. Sewering considered whether the valuation method is more in the interests of the company or in the interests of its creditors (Sewering, 1925).

A more thorough, precise assessment would be possible through the use of other forms of presenting financial information included in the balance sheet, therefore the authors, based on the theory of Osbahr (Śnieżek, Wiatr, 2014b, pp. 373–386), consider developing an additional balance sheet, to serve as a complement to the „base" balance sheet, for example in the form of explanatory notes obligatorily recognized in the notes. Thus, the constructed „extra balance sheet" would be included into contemporary trends in business reporting and could be an important factor for assessing the company's business, even if only for potential investors. Therefore, later in the article, the authors present a case study which uses the assumptions of Osbahr's balance sheet theory.

The aim of this study is to present the possibilities of the practical application of Osbahr's balance sheet theory assumptions, as one of many possible attempts to close the information gap in the financial reporting of the twenty-first century (Wiatr, 2013). This article uses the deductive method, supported by literature studies and a case study method. The authors, using the case study method, confirm the possibility of using the described balance sheet theory in the current financial reporting based on actual data from a company, ABC Ltd. They also show that the balance sheet which is presented according to the new reporting formula presents new quality of information for the financial reporting users.

1. Overall assumptions of Osbahr's entrepreneur balance sheet theory

The balance sheet is a statement which, on the one hand, shows the financial resources of the company and, on the other, its equity and foreign investments; it is also a presentation of the equity and debts assets in stocks or other capital investments in the property of the entrepreneurship (Brzezin, 2006, pp. 20–22). By citing these definitions, we touch a more external than economic substance of the balance sheet. This substance is even less characterized by the usual defining encountered in the German case law (Scheffs, 1936), according to which the balance sheet would be a presentation of the financial situation or position of the company. Such an explanation has often been interpreted one-sidedly, since the term property covered the sum of all possessions, while the balance sheet also contained the presentation of liabilities and equity. According to Osbahr it is inadequate to claim that the balance sheet is the buyer's (entrepreneur's) income statement. This claim could not be proven historically or logically. Osbahr postulated highlighting any changes occurring in the economic structure of the company and its components which do not result directly from its operating activities, and to present them in the position of an „adjustment”.

It was also inadequate to believe that the aim of the balance sheet is the display of the financial position and assessment of profits, or the view that only the opening or special balance sheet (liquidation balance sheet, transformative balance sheet, etc.) is the financial balance sheet, while the ordinary annual balance sheet is the balance of profits. Bearing in mind that Osbahr wrote about the realities of economic life in Germany from the early twentieth century, where the only correct approach in a modern economy was that balance should be understood as a means to achieve the objectives of economic benefits arising from the essence of the company, it was to be the outline of the presentation of the entire structure of the „monetary – economic – identity” (Trebilcock, 1981). The task of the balance sheet was to allow for the financial results determination for the owners, through a careful valuation of the net asset increase of the company. The profit and loss account held a supporting role, based on determining the main items affecting the change of net asset values. This means that the balance sheets gave an outline of all of the elements of monetary and economic structures, and all the resulting dependencies, relationships and consequences (Oppenheimer, 1911). Only such a comprehensive approach fully corresponds to the economic needs of the enterprise and fully explains the essence of the balance sheet. It signaled the full range of tasks resulting from the economic needs of the company in connection with its current macroeconomic position.

From this point of view, it did not matter in what order the various types of assets and capital of the company appeared in the balance sheet. The need for a clear recognition of items in the balance sheet rightly allows for conclusions to be drawn regarding properly and deliberately expanded accounting as well as the functioning of the company (Fischer, 1908). Wherever there was a lack of transparency, the establishment of order was necessary, converting an unclear division of balance to that which would be bright and clear. Only then could it be possible to proceed to its preparation. Wilhelm Osbahr suggested, according to the above assertions, the overall structure of the entrepreneur's balance sheet, which is shown in Diagram 2. It is worth noting that this balance sheet would not have brought anything new to the knowledge of balance sheet, if not for the fact that it forced the emergence of new balance sheet items.

This refers, of course, to the position of „correction" (C. Adjustments). It can be placed both on the side of assets and liabilities, being a kind of „information screen". It should be isolated from the overall structure of the statement or the substance of these indications of the balance sheet which did not constitute to the operating result. In other words, they were estimates, or other evaluation parameters dependent on the subjective assessment of the signatory.

The company should try to accomplish its objective, which means that it should achieve successes through the implementation of its plans (strategies). The result of the objectives, which is the effect of striving to achieve the fundamental goal of the entrepreneurship, should be a useful criterion for assessing the viability of the company, the quality and efficiency of its management and its overall economic value. Speculative gains, natural phenomena or political complexities, costs but also profits from the current overvaluation of equipment, and land etc. could completely conceal the true operating profit of the company.

On the other hand, it was important to understand the impact of an enterprise's consistently implemented objective on its capital (Wiatr, 2013). It was necessary to clearly distinguish one main cause of change in the capital from all of the secondary causes. The mentioned distinction (as a result of the sale or as a result of the provision of services) concerned the pure operating result and all the other titles of changes in share capital, i.e. other economic events unrelated to the operating activities but shaping the financial results or directly affecting the equity. All events related to the primary purpose of operating companies have been identified by Osbahr as important for the company, and, in comparison, all others are irrelevant actions. Therefore, the operating result, which is derived from the main purpose of the company, was a major change in capital for the company and played a decisive role in assessing the performance of the company, the existence of bringing economic benefits or devoid of value for the owner.

Balance sheet could not therefore be perceived unilaterally as a basis for determining the results of the company's activities, but as the tool, the economic essence of which is reflected in the accounts of profit and loss. Following this path of reasoning, Osbahr proposed his own scheme which takes into account the division of the income statement into operationally significant and insignificant, as well as changes in equity (ordinary and extraordinary). Diagram 1 shows the form of the income statement by Osbahr used as a complement to the content of the balance sheet.

Such a structure of profit and loss meant that the inclusion of the result into a balance sheet gave it a completely different character. One could see in it the results concerning significant operations and any other factors affecting the insignificant changes in equity.

Diagram 1. Financial result according to Osbahr’s theory

<table>
<tr><th colspan="2">Dt (losses)   Profit and loss accounts   Cr (profits)</th></tr>
<tr><td colspan="2">I. Operating result (gain on core business) – significant for the entrepreneur
(significant operating result)</td></tr>
<tr><td>Operating loss</td><td>Operating profit</td></tr>
<tr><td colspan="2">II. Changes in equity – insignificant for the entrepreneur
(insignificant operating result)</td></tr>
<tr><td>a) ordinary decrease in equity
b) extraordinary decrease in equity</td><td>a) ordinary increase in equity
b) extraordinary increase in equity</td></tr>
</table>

Source: own elaboration (Osbahr, 1923, pp. 145–158).

In the same way, Osbahr saw the problem of balance sheet markings (i.e. the value of the balance sheet position arising after the balance sheet valuation and consisting of historical value and revaluation), as he wanted to clean up the balance sheet values from the impact of measures which do not reflect the normal operations of the company. Through specific presentation of balance sheet indications, he initiated the creation of sections of information, new at that time, and he also wished to give a numerical dimension and economic utility to the economic potential and risks assigned to the individual balance sheet. He proposed the entrepreneur’s balance sheet, which reflected the presented approach to both financial results and the specific disclosure of balance sheet data, as shown in Diagram 2.

Diagram 2. The general concept of the balance sheet according to Osbahr’s theory

Assets	**Equity and liabilities**
A. Tangible assets	**A. Equity**
1. Fixed assets a) Land b) Buildings c) Machinery, technical equipment	**1. Share capital**

Profit and loss account
Operating income (significant for the entrepreneur)

Diagram 2. The general concept of the balance sheet according to Osbahr's theory (cont.)

<table>
<tr><th>Assets</th><th>Equity and liabilities</th><th></th><th>Profit and loss account</th></tr>
<tr><td rowspan="2">2. Permanent shares and temporary assets</td><td>2. Provisions
a) Ordinary provisions
b) Extraordinary provisions
c) Specific provisions</td><td></td><td>Operating costs (significant for the entrepreneur)</td></tr>
<tr><td>3. Net financial result</td><td rowspan="3">Standard net financial result is divided into:
I. Significant operating result
II. Insignificant operating result</td><td>I. Significant operating result</td></tr>
<tr><td>B. Current assets</td><td rowspan="2">B. Liabilities</td><td rowspan="4">Other income and costs which are not included in the significant operating result are an insignificant change in capital - included in the section adjustments to both assets and liabilities (depending on the character)</td></tr>
<tr><td>1. Available cash
a) Cash and cash in the bank
b) Bills of exchange
c) Securities</td></tr>
<tr><td>2. Receivables
a) short-term
b) long-term</td><td>1. Short-term liabilities
a) Liabilities
b) Acceptances
c) Accrued liabilities</td><td></td></tr>
<tr><td>3. Inventories
a) Goods, products, semi-finished products
b) Materials</td><td>2. Long-term liabilities
a) Bank loans
b) Other loans</td><td></td></tr>
<tr><td>C. Adjustments</td><td>C. Adjustments</td><td></td><td rowspan="3">II. Insignificant operating result</td></tr>
<tr><td>1. Valuation (insignificant operating income and costs)</td><td>1. Valuation (insignificant operating income and costs)</td><td></td></tr>
<tr><td>2. Guarantee received</td><td>2. Guarantee transferred</td><td></td></tr>
</table>

Source: own elaboration (Śnieżek, Wiatr, 2014a, pp. 350–362).

Understanding the key aspects of the theory of the balance sheet, Osbahr allows us to understand the reasons for the recognition of his pioneering theories as a future vision of reporting.

In order to illustrate the discussed issues and help in-depth understanding of the phenomenon in its natural context, the authors use the case study method (Yin, 2009, pp. 3–24). The aim of the case study is to show the implementation of Osbahr's balance sheet theory in practice (the financial data of ABC Ltd) and to demonstrate the implementation of the new model of balance sheet disclosures.

2. Case study – characteristics of the research subject

ABC, a limited company (due to the protection of financial information in the case study, the name of the company which this case concerns been changed) was founded in 1991 as a result of the political transformations taking place in Central and Eastern Europe in the late 1980s and 1990s. For the last 20 years, the core business of the ABC company has concerned the provision of services of sea transport of goods and passengers. It operates a dozen ships and the fleet structure allows it to transport a variety of cargo: conventional, containers, trucks, road sets and rail wagons. The agreement of the company states that the core business of the company includes primarily:

- Leading a ship-owning entrepreneurship,
- Water transportation,
- Freight, road transport,
- Agency and brokerage services in the field of sea broker marker,
- Steward and dunnage services,
- Warehousing and storage,
- Trade in industrial and consumer goods, in particular those concerning the supply of ships,
- Agency and representative services for foreign and domestic customers,
- Activity related to tourism,
- Exploitation of port waterfronts, ports services.

The transformation of the traditional balance relates to the financial data for the financial year which ended on 31st of December in 2009. The financial statements until that day were made on the basis of the regulations of the Accounting Act, however, due to the cross-border merger with the ABC Holding Ltd company, which was also the only owner, there appeared a necessity to adjust the financial statement in such a way as to be compatible with the International Financial Reporting Standards. For this reason, it was decided to make a presentation of the model based on the adjusted financial statement.

Description of the sourcing data and stratification of balance sheet value

The preparation of a model compatible with the assumptions of Osbahr's balance sheet theory requires from the formulator the creation of a stratification of balance sheet values, i.e. separating a historical value in them (in most cases based on the actually realized values, i.e. resulting from the price – the cost of acquisition or own production) as well as all sorts of estimates affecting the final (reporting) balance sheet value of a particular constituent.

Table 1. Presentation of assets – stratification of the balance sheet value as of 31.12.2009 (amounts in PLN)

31.12.2009	Valuation according to Polish Accounting Act	Transformation (adjustments) – the imposition of a new information layer	Valuation according IFRS (transformed report)
Assets			
Non-current assets	**28 513 110**	**201 007 214**	**229 520 324**
Tangible assets	7 404 713	16 730 546	24 135 259
Other intangible assets	171 094	0	171 094
Investment in consolidated units (subsidiaries, associates)	15 530 925	182 736 548	198 267 473
Investment properties	5 382 539	1 540 120	6 922 659
Other financial assets	23 780	0	23 780
Deferred tax assets	0	0	0
Long-term receivables	59	0	59
Current assets	**35 839 708**	**–13 177 320**	**22 662 388**
Inventories	13 228 721	168 375	13 397 096
Trade and other receivables	21 605 748	–13 345 695	8 260 053
Current tax assets	0	0	0
Cash and short-term deposits	1 005 239	0	1 005 239
Assets classified as held for sale	0	0	0
Total assets	**64 352 818**	**187 829 894**	**252 182 712**

Source: self-reported data based on data from ABC Ltd.

Adjusting the report, which was prepared in accordance with the regulations of the Accounting Act, to the requirements of International Financial Reporting Standards is an excellent opportunity to trace the imposition on the previous balance sheet values of new information sections.

Table 1 summarizes the transformation process and highlights the granting of new features to the balance sheet values. Tracing the effects of the transformation of the balance sheet (to the IFRS requirements) will enable the capture of changes resulting from:

– Made revaluations (valuations to market values) which are relevant for the model balance sheet and
– Presentation adjustments which, if not related to estimates (previously included in the report) do not affect the balance sheet model.

After a deeper analysis the attention has been paid to the column „Merger – an imposition of a new information layer" included both in the first and seventh table, which illustrates the influence of the transition from national legislation (which in the case of a company is largely based on historical costs, devoid of estimates) to international solutions (in which the leading category of valuation is a fair value).

In the area of the fixed assets, the conversion of balance sheet reporting requirements in accordance with IFRS will be required to estimate the fair value of owned buildings and the vessel, which increased their value by more than 33.4 million zlotys (Table 2).

Table 2. Description of the balance sheet transformation – tangible assets (amounts in PLN)

Items	Accounting Act	Transformation (adjustments)	IFRS
Tangible assets	**7 404 713**	**16 730 546**	**24 135 259**
Transformation (adjustments)		**16 730 546**	**Effect on the balance sheet according to Osbahr's theory**
– increasing the value of buildings		11 345 643	Yes
– increasing the value of the vessel		6 268 500	Yes
– adjustment of deprecation as the result of increased values of tangible assets		–883 597	Yes

Source: self-reported data based on the data of ABC Ltd.

Since the transformation of tangible fixed assets gives new balance sheet value to owned fixed asset components, and the activity which caused this to happen is not due to actual cash flow, it should be noted as important from the point of view of the model in question.

In terms of investments in subsidiaries and associates, the reason for the need for adjusting the financial statements to a form compatible with IFRS was a trans-border merger with the unit which was established in Cyprus and which made its reports in accordance with International Financial Reporting Standards (IFRS). ABC, a limited company, was a major shareholder and often the sole owner of many Cypriot and Maltese shipping companies. In the previous solutions, it presented the shares in particular companies according to historical value (purchase price). Since the fair value of those shares was significantly different from the historical cost, the company decided to upgrade its values to the market value during the transformation.

A fair value was also established for the associated companies (based on the equity method for the 31.12.2009) – supporting data is presented in Table 3.

In the case of other subsidiaries, valuation was made depending on the value of companies based on the requirements of IFRS's restated financial statements and affiliates – according to the equity method. Table 3 indicates that the value of shares grew from 28 million PLN to almost 200 million PLN. This increase is also noticeable in Table 4.

Table 3. Fair value adjustments of possess shares

Subsidiaries and associates	Book values as of 31.12.2009 (PLN)	Number of shares (%)	Fair value (EUR)	Fair value (PLN)
ABC-Z1* (subsidiary)	2475	100.00	14 193 331	58 309 042
ABC-Z2* (subsidiary)	2615	99.00	600 109	2 465 367
ABC-Z3* (subsidiary)	2215	100.00	481 621	1 978 595
ABC-Z4* (subsidiary)	3582	100.00	1 286 414	5 284 844
ABC-Z5* (subsidiary)	2 175 939	100.00	12 689 137	52 129 511
ABC-Z6* (subsidiary)	355	100.00	1 275 247	5 238 972
ABC-Z7* (subsidiary)	3972	100.00	4 959 504	20 374 634
ABC-Z8 (subsidiary)	1 541 525	100.00	5 028 479	20 657 996
ABC-Z9 (subsidiary)	100 000	100.00	118 610	487 275
ABC-Z10 (subsidiary)	13 177 320	76.29	4 310 265	17 707 430
ABS-1 (associate)	10 550	21.33	0	251 529
ABS-2 (associate)	6 063 259	19.02	0	7 503 609
ABS-3 (associate)	5 624 438	37.50	0	5 878 668
Sum up	**28 708 245**		**44 942 716**	**198 267 473**
* shipping companies				

Source: self-reported data based on data from ABC Ltd.

Table 4. Description of the balance sheet transformation – investments in consolidated units (subsidiaries and associates) (in PLN)

<table>
<tr><th>Items</th><th>Accounting Act</th><th>Transformation (adjustments)</th><th>IFRS</th></tr>
<tr><td>Investments in consolidated units (subsidiaries and associates)</td><td>15 530 925</td><td>182 736 548</td><td>198 267 473</td></tr>
<tr><td colspan="2">Transformation (adjustments)</td><td>182 736 548</td><td>Effect on the balance sheet according to Osbahr’s theory</td></tr>
<tr><td colspan="2">– the presentation of the voting rights</td><td>13 177 320</td><td>No</td></tr>
<tr><td colspan="2">– increase of value of possess shares (fair value valuation)</td><td>169 559 228</td><td>Yes</td></tr>
</table>

Source: self-reported data based on data from ABC Ltd.

Not all the transformations on long-term investments are the hallmarks of revaluation; the 13 million PLN is a presented transformation adjustment (presentation of the voting rights, which originally was included as a receivable from dividends and was later changed into future participation in the capital of one of the subsidiaries).

Investment properties as a result of the merger (like fixed assets) are covered by the appraisal and the value was updated to fair value (previously they were recognized at their historical cost and amortized). Table 5 shows the recognition of adjustments and significant impact on the presentation according to the principles of Wilhelm Osbahr’s balance sheet theory.

Table 5. Description of the balance sheet transformation – investment properties (in PLN)

Items	Accounting Act	Transformation (adjustments)	IFRS
Investment properties	5 382 539	1 540 120	6 922 659
Transformation (adjustments)		**1 540 120**	**Effect on the balance sheet according to Osbahr’s theory**
– increase of the property’s value		1 540 120	Yes

Source: self-reported data based on data from ABC Ltd.

The transformation of the „Inventories” and „Accounts receivable” was not an adjustment value through additional valuations, it was merely a „technical cleaning” of the positions in terms of their presentation, so the changes seen in Table 6 do not affect the presentation of data on the balance sheet according to the principles of Wilhelm Osbahr.

Table 6. Description of the balance sheet transformation – inventories and current receivables (in PLN)

Items	Accounting Act	Transformation (adjustments)	IFRS
Inventories	13 228 721	168 375	13 397 096
Trade and other receivables	21 605 748	–13 345 695	8 260 053
Transformation (adjustments)		**–13 177 320**	**Effect on the balance sheet according to Osbahr’s theory**
– change of presentation of advances for inventories		168 375	No
– change of presentation of the voting rights		–13 345 695	No

Source: self-reported data based on data from ABC Ltd.

The conversion of the balance sheet and its impact on the presentation of assets was significant, because the initial value of assets of more than 64 million PLN was upgraded to the level of 252 million PLN, an increase of more than 187 million PLN (i.e. over 290%), which confirms the application of the model reporting and disclosure of made revaluations. The transformation also had a significant influence on the side of sources of financing of its assets, in particular the equity, which, compared to the recent value (resulting from the Accounting Act) increased more than eight-fold (Table 7).

Table 7. Presentation of equity and liabilities
– stratification of the balance sheet value as of 31.12.2009
(amounts in PLN)

31.12.2009	**Accounting Act**	**Transformation (adjustments) – the imposition of a new information layer**	**Valuation according IFRS (transformed report)**
Equity & liabilities			
Equity	**20 792 956**	**152 142 214**	**172 935 170**
Issued capital	3 164 640	5 675 817	8 840 457
Spare capital	15 056 440	3 771 948	18 828 388
Other capital reserves	471 203	–471 203	0
Net financial result	6 094 384	–142 648	5 951 736
Retained earnings	–3 993 711	143 308 300	139 314 589
Non-current liabilities	**73 088**	**35 687 680**	**35 760 767**
Interest-bearing loans and borrowings	0	0	0
Other non-current financial liabilities	0	0	0
Non-current provisions	0	0	0
Deferred tax provision	0	35 687 680	35 687 680
Non-current employee benefit liability	0	0	0
Other liabilities	73 088	0	73 088
Current liabilities	**43 486 775**	**0**	**43 486 775**
Trade and other payables	43 031 294	–4 674 126	38 357 168
Incomer tax payable	0	0	0
Current provisions	455 481	0	455 481
Accruals	0	4 667 482	4 667 482
Other curent liabilities	0	6644	6644
Liabilities directly associated with the assets classified	0	0	0
Total liabilities	**43 559 862**	**35 687 680**	**79 247 542**
Total equity and liabilities	**64 352 818**	**187 829 894**	**252 182 712**

Source: self-reported data based on data from ABC Ltd.

An important position of liabilities is primary and secondary capital. The company started its activity in 1991, thus it covers with its activities a period of high inflation; during the merger it was decided to take this into account and update the value of equity by a hyperinflationary adjustment (Table 8).

Table 8. Description of the balance sheet transformation
– issued and spare capital (in PLN)

Items	Accounting Act	Transformation (adjustments)	IFRS
Issued capital	3 164 640	5 675 817	8 840 457
Spare capital	15 056 440	3 771 948	18 828 388
Transformation (adjustments)		**9 447 765**	**Effect on the balance sheet according to Osbahr’s theory**
– adjustment of issued capital due to inflation		5 675 817	Yes
– adjustment of spare capital due to inflation		3 771 948	Yes

Source: self-reported data based on data from ABC Ltd.

Since those events affect the value of capital (primary and secondary) and comply with the general assumptions of the presentation (issues of the presented model), they should be taken into account in the capital as its revaluation.

Reserve capital from the revaluation of assets and the undivided financial result of the previous years – the change in value recorded on the reserve capital – were presented in adjustments, which do not affect the reporting model. The initial value of the reserve capital was transferred to the results of previous years (undivided financial result from previous years), since the effect of valuations carried out in previous years should load the financial result of the year in which the economic event happened. The impact of valuations resulting from the merger was related to the undivided financial results. (Table 9).

Table 9. Description of the balance sheet transformation
– retained earnings (in PLN)

Items	Accounting Act	Transformation (adjustments)	IFRS
Retained earnings	–3 993 711	143 308 300	139 314 589
Transformation (adjustments)		**143 308 300**	**Effect on the balance sheet according to Osbahr’s theory**
– adjustment of retained earnings due to inflation		–9 450 572	Yes
– valuation to the fair value of possessed shares		169 559 228	Yes
– valuation of the tangible assets and investment properties		19 368 103	Yes
– deferred tax due to valuation		–35 896 193	Yes
– adjustment of other capital reserves		471 203	Yes
– other (the specification of the amount was not done due to the large number of its constituent titles)		–743 469	Yes

Source: self-reported data based on data from ABC Ltd.

All amounts included in the above balance sheet relate to the revaluation made at the moment of change of the basis of preparing financial statements from the Accounting Act to IFRS; therefore, it should be assumed that earlier results that were not distributed do not contain an estimating category, thus, these transformations are essential for the made balance sheet in terms consistent with Wilhelm Osbahr's theory.

Realized net profits, namely the difference between the result recognized in accordance with the Accounting Act and what is presented in accordance with international financial reporting standards, is considered insignificant and will not be examined (the transformation of the financial result did not include the amounts resulting from the revaluation), with the exception of depreciation adjustments of fixed assets, whose value has been re-estimated. A description of this approach will be made on the occasion of the transformation of the statement of comprehensive income in order to obtain financial results operationally significant and non-significant (Table 11).

Deferred tax liability presents the result of the conducted merger to the fair value of the assets of the company. Due to the fact that all estimates of the balance sheet values loaded the undivided results, the reserve has a capital character (Table 8). The change resulting from the transformation will affect the reporting model as it is a result of the valuation.

Short-term liabilities did not change value in the total amount, what changed is the presentation of particular items which form them changed individual items forming them, but the impact of which will not be recorded in the reporting model (Table 10).

Table 10. Description of the balance sheet transformation – current liabilities (in PLN)

Items	**Accounting Act**	**Transformation (adjustments)**	**IFRS**
Trade and other payables	43 031 294	–4 674 126	38 357 168
Accruals	0	4 667 482	4 667 482
Other current liabilities	0	6644	6644
Transformation (adjustments)		**0**	**Effect on the balance sheet according to Osbahr's theory**
– adjustment of retained earnings due to inflation		–4 674 126	No
– valuation to the fair value of possessed shares		4 667 482	No
– valuation of the tangible assets and investment properties		6644	No

Source: self-reported data based on data from ABC Ltd.

Before the balance sheet presents all of the relevant positions, according to the recommendations of Osbahr, what must be established is the result of the divided financial result on significant and insignificant operational parts.

4. Establishing significant and insignificant operating result

A complementation of the stratification of information is the transformation to the requirements of the reporting statement model from the total income in such way that it is possible to determine the significant and insignificant operating result.

This is only possible if the company clearly defines what is meant by the significant operating activity. Unfortunately, neither international accounting codification nor national solutions mention such a cross-section of information. For this reason, at attempt was made to assign the current classification to the described information (Table 11).

Table 11. Statement of comprehensive income
– the separation of significant and insignificant operating activity (in PLN)

01.01.2009–31.12.2009	**IFRS**	**The categories of income and costs due to meaning assigned in Osbahr's balance sheet theory**
Continuing operations		
Sale of product and goods	136 047 821	**Significant operating income**
Other operating income	966 243	**Significant operating income**
Operating costs	152 721 821	**Significant operating costs**
Other operating costs	263 803	**Significant operating costs**
Profit / loss from operating activity	–15 971 562	
Finance income	22 302 013	**Insignificant operating income**
Finance costs	70 372	**Insignificant operating costs**
Profit before tax from continuing operations	6 260 079	
Income tax expense	308 343	**Significant operating activity**
Profit for the year from continuing operations	5 951 736	
Profit/(loss) after tax for the year from discontinued activity		
Profit (financial result) for the year	5 951 736	
Other comprehensive income		
Total comprehensive income for the year	5 951 736	

Source: self-reported data based on data from ABC Ltd.

It was assumed that the operating activity recognized in the statement from total incomes is treated as a significant operating activity. An operationally significant activity can be differently defined by different entrepreneurships and may be included in different categories of expenses and revenues. It is pointed out, however, that the expenses and revenues which concern operational activity (even significant) if coming from the balance sheet valuation or influencing it, should be classified as elements operationally insignificant. Revenues and costs of this activity should be based on economic events that actually took place in the enterprise, and their effect is or will be shown in the cash flow from operating activities.

If this category includes incomes and costs resulting from the effects of revaluations (or are themselves therewith), they should be recognized as elements operationally insignificant (as a sporadic event, unique). Initial assumptions resulting from Table 11 were then expanded and transformed in such way that the presented information in the section required by the model is consistent with the theory of the balance sheet by Wilhelm Osbahr (Table 12).

Table 12. Calculation of significant and insignificant result according to the Osbahr approach (in PLN)

01.01.2009–31.12.2009	Financial result according to Osbahr's approach	Adjustment – deprecation	Financial result according to Osbahr's approach – final
Significant operating activity			
Significant operating income	137 014 063		137 014 063
Significant operating costs	152 985 625	–883 597	152 102 028
Income tax	308 343		308 343
Significant operating result (business activity)	**–16 279 904**		**–15 396 308**
Insignificant operating activity			
Insignificant operating income	22 302 013		22 302 013
Insignificant operating costs	70 372	883 597	953 969
Insignificant operating result	**22 231 641**		**21 348 044**
Sum of significant and insignificant results	5 951 736		5 951 736

Source: self-reported data based on data from ABC Ltd.

Incomes and expenses which were previously assigned to types of business became a basis for the calculation of financial results in the new reporting conceptualization. A significant operating result, based on operating costs and revenues as well as income tax, had to be adjusted for depreciation, which was determined based on the estimated value of buildings and structures resulting from the fair value measurement of the financial statements as a result of the conversion to IFRS requirements. Such a determined value (the revaluation took place after the day of acquisition) means that part of the depreciation is significant operating (based on the initial value from the day of acquisition), and the remaining part, resulting from market valuation, becomes the cost disrupting the valuation of a strict operational activity.

A significant operating result will make for the basis of the assessment of the effective implementation of activities for which the entrepreneurship was founded, and should be clearly demarcated from the results achieved from other activities, which have a secondary nature (they do not have signs of recurring activities; on the contrary, they must be specified as occasional activities). In the case of ABC Limited, the reporting result (determined on the basis of IFRS) amounted to 5.9 million PLN. It contained, however, elements of different decision-making and analytical importance. The transformation which was been made on the basis of Tables 11 and 12, informs the person reading the financial statement that:

– when assessing the activity – strictly operational (important from the point of view of strategy, forecasts, assessment of continuing of activity) – it should be noted that the company generates an operationally significant activity loss of 15.4 million PLN;
– when assessing other events which should be treated as non-recurring events – occasional – the company earned a profit of 21.3 million PLN, which was achieved thanks to received dividends and sales of investments (dividends is dependent on the results which an associated unit obtains, and the sale of investments, if not the core business, will sooner or later cease to be carried out) and included in this amount the depreciation from the position of revalued fixed assets.

The above summary shows that an assessment of the company based on the result of the reporting may be considered too general, leveling some kind of action taken by the parties in order to compensate for losses arising from particular types of activity. At the same time, it confirms the validity of creating a new reporting model based on the assumptions of Osbahr’s balance sheet theory.

5. Presentation of the balance sheet providing the adjustments related to the conversion of the report to the IFRS requirements

Osbahr’s balance sheet theory requires from the balance sheet maker a particular set of information, from which results the „stratification” of values presented in the balance sheet. Tables 1–12 present how the balance sheet is influenced according to the Accounting Act transformation of values and presenting them in accordance with international reporting requirements. After this, the balance sheet values consist of values resulting from the Accounting Act requirements and transformational adjustments. The mentioned transformational adjustments give a new information layer to the amounts presented in accordance with national legislation which, in turn, are compatible with the requirements of Osbahr’s balance sheet theory and should be presented in separate sections.

Table 13 shows a transformed balance sheet of the ABC Ltd, made for 31.12.2009 (based on a report prepared in accordance with IFRS). Although both balance sheets (according to IFRS presented in Tables 1 and 7 and the balance sheet presented in Table 13) concern the same company, the information disclosed in the balance sheet, in accordance with Osbahr's balance sheet theory, gives a new structure to the presented information and thus increases its utility.

Balance sheet in the new formula informs everyone that over 70% of the value of assets, and more than 60% of the equity and liabilities, is the result of revaluation. It should be emphasized that the fair value of assets (determined on the basis of the revaluation of values) determines the size of the potential, achievable future costs, which bear a certain degree of risk for the day of realization that may change the real value of benefits. Therefore, the revaluation should be interpreted as the possibility of occurrence of a given value, with a certain degree of probability of its occurrence. Equity analysis seems a little more complicated in this respect.

Table 13. The balance sheet of ABC Ltd as of 31.12.2009 r. (in PLN) – presented according to the Wilhelm Osbahr balance sheet theory

Non-current assets	**41 690 430**	**Equity**	**20 179 105**
Tangible assets	7 404 713	Issued capital	3 164 640
Other intangible assets	171 094	Spare capital	15 056 440
Investment in consolidated units (subsidiaries, associates)	28 708 245	Other capital reserves	0
Investment properties	5 382 539	Net financial result	**5 951 736**
Other financial assets	23 780	*Including:*	
Deferred tax assets	0	*Significant operating result*	*–15 396 308*
Long-term receivables	59	*Insignificant operating result*	*21 348 044*
		Retained earnings	–3 993 711
Current assets	**23 481 388**	**Liabilities**	**79 247 542**
Inventories	13 397 096	Deferred tax provision	35 687 680
Trade and other receivables	9 079 053	Current provisions (concerning operating activity)	455 480
Current tax assets	0	Other liabilities	73 088
Cash and short-term deposits	1 005 239	Trade and other payables	38 357 168
Assets classified as held for sale	0	Accruals	4 667 482
		Other liabilities	6644
		Current liabilities	

Adjustments		**Adjustments**	
Valuation	**187 010 894**	**Valuation**	**152 756 065**
Tangible assets	16 730 546	Issued capital	5 675 817
Investment in consolidated units (subsidiaries, associates)	169 559 228	Spare capital	3 771 948
Investment properties	1 540 120	Other capital reserves	0
Trade and other receivables	–819 000	Retained earnings	143 308 300
	252 182 712		**252 182 712**

Source: self-reported data based on data from ABC Ltd.

The presented information sections help the owner with the evaluation of:
– current financial activity of the company (results achieved from the significant operating activity i.e. core business, from other activities and balance sheet valuation);
– possibility of realizing claims resulting from the potential obligation of dividends payment.

In the case of the first assessment, it seems clear that the distinction between an activity in the specification of the financial result in the model’s informative sections allows the owner/investor to differently interpret the activity of the business. It considers the origin of the financial result in the context of the recurring operations (operational) and occasional ones (implemented on other activities – operationally insignificant).

In the case of the second assessment, the stratification of balance sheet costs should illustrate and verify the reality of the amount of the dividend, i.e. the claims from the dividend should not be based on amounts based on estimates and solely on the results of the activities carried out on an operationally significant activity, excluding the amounts resulting from the balance sheet valuations.

Summary

The authors draw some conclusions from the presented case study:
1. Through the use of adequate financial data, it is possible to transform a typical balance sheet to the new balance sheet formula resulting from Osbahr’s balance sheet theory.
2. The restated balance sheet of ABC Ltd presents information that had not been presented previously:
   a) over 70% of the value of assets and more than 60% of the equity and liabilities are the result of revaluation,

b) the net result in the initial amount of 5 951 736 PLN consists of:
   – the loss on significant activities (resulting only from the core operating activities) to the amount of 15 396 308 PLN,
   – the profit on insignificant operating activity (which is mainly caused by the valuation) to the amount PLN 21 348 044 PLN.

3. The new balance sheet formula (as we can see from the case of ABC Ltd), consistent with the assumptions of Osbahr's theory, provides additional information for investors, which supplement the evaluation of the company's activities and the value of assets.

Orientation changes in accounting must bring a change in the reporting model, providing access to financial information in the shape and range which would correspond to the information needs of users. Scientists developing theories of balance sheet have made a significant contribution to the development of accounting, and financial reporting in particular, both in the static and dynamic area. Contemporary accounting sometimes constantly refers to the elements of these theories, but of course from different points of view and different perspectives.

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