

**Report on the review of annual consolidated financial statements for the accounting year 2007 by issuers of securities in the context of their compliance with IASs**

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Issuers Department – Accounting Division

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## Chapter I. Rules of periodic review and objective of the report

### 1. Overview of the rules of review

The present report is a summary of the review conducted by the Accounting Division of the Issuers Department at the Polish Financial Supervision Authority in respect of the annual consolidated financial statements for the accounting year 2007 by issuers of securities other than investment funds in the context of their compliance with IASs, i.e. International Accounting Standards, International Financial Reporting Standards and the related interpretations published in the form of regulations of the European Commission.

The objective of this report is to present the selected issues relating to the preparation of financial statements in accordance with IASs, in particular in respect of the required disclosures which are of great importance in the period of crisis on financial markets.

Considering the objective of this report, we would like to emphasise that the content of the report is merely a summary of the selected information on disclosures required by IASs. Full scope of the required disclosures is provided for in applicable IASs.

Considering the fact that the main element of the full, comprehensive scope of enforcement of the applied financial information standards is the monitoring of compliance of the financial information with the applicable reporting framework (principle 2 of CESR<sup>1</sup> Standard No. 1<sup>2</sup> on Financial Information), Accounting Division of the Issuers Department conducts periodic review of compliance of issuers' financial reporting with applicable reporting regulations. Periodic review covers regular analysis of the selected financial statements and analysis on request (of issuers' financial statements published in interim information, prospectuses or information memoranda) in a situation when another unit of the Polish Financial Supervision Authority requests communication of specific position in the course of already initiated proceedings.

In the context of the conducted proceedings, particular attention is paid to the analysis of opinion of the entities authorised to audit financial statements, i.e. to identification of cases where a statutory auditor disclaimed of an opinion due to existence of circumstances which make it impossible to prepare an opinion, expressed an adverse opinion, submitted qualifications or remarks. The need for compliance review depends on the nature of opinion of the statutory auditor.

In 2008, Accounting Division of Issuers Department increased, compared to years 2005-2007, the number of criteria applied to the identification of issuers whose consolidated financial statements for 2007 were subject to review. Also the number of financial statements selected for review in 2008, under the periodic review, was increased compared to the previous years.

In total, annual consolidated financial statements of 66 issuers with total capitalisation accounting for 36.7% of regulated market capitalisation (Warsaw Stock Exchange and MTS CeTO) as on 28 December 2007 (last WSE and MTS CeTO session in 2007) were analysed in respect of compliance with IASs.

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<sup>1</sup> CESR - The Committee of European Securities Regulators, CESR website: [www.cesr.eu](http://www.cesr.eu)

<sup>2</sup> Standard CESR No. 1 on Financial Information. Enforcement of Standards on Financial Information in Europe of 12 March 2003 (Ref.: CESR/03-073), available at: [http://www.cesr.eu/index.php?page=document\\_details&id=192](http://www.cesr.eu/index.php?page=document_details&id=192)

**Table 1. Number of issuers whose financial statements were subject to periodic review**

<b>Issuers</b>	<b>Number</b>	<b>Share in regulated market capitalisation as on 28.12.2007</b>	<b>Share in regulated market capitalisation as on 30.09.2008</b>
Companies with capitalisation exceeding PLN 1 billion as on 28.12.2007	28	35.7%	30.6%
Companies with capitalisation below 1 billion as on 28.12.2007	34	1%	1.4%
Companies unlisted on the regulated market as on 28.12.2007	4	-	-
<b>Total</b>	<b>66*</b>	<b>36.7%</b>	<b>32%</b>
of which: companies which debuted on WSE in 2007	14	29%	23.3%

\* total number of companies covers, apart from companies with capitalisation exceeding PLN 1 billion and below PLN 1 billion as on 28.12.2007 also companies seeking admission to trading on the regulated market in years 2007-2008, which as on 28.12.2007 were not listed on the regulated market.

The review covered annual consolidated financial statements of issuers representing all sectoral indices of the Warsaw Stock Exchange, as well as annual consolidated financial statements of selected issuers whose securities are listed on CeTO Securities Market.

## 2. Selection of financial statements for review

Since 2005, Accounting Division of Issuers Department has been implementing the principles of enforcement of standards on financial information specified in CESR Standard No. 1.

Pursuant to principle 1 of CESR Standard No. 1, the purpose of enforcement of standards on financial information is to protect investors and promote market confidence by contributing to the transparency of financial information relevant to the investors' decision making process.

The methods for selecting annual consolidated financial statements for review were based on CESR recommendations provided in CESR Standard No. 1 and in CESR guidelines on the application of selection methods.

Principle 13 of CESR Standard No. 1 on Financial Information stipulates that (...) preferred models for selecting financial information for enforcement purposes are mixed models whereby a risk based approach is combined with a rotation and/or a sampling approach (...).

## 3. Objective of the report

Preparation of this report on the conducted review and publication of the report on PFSA website is aimed at presenting the results of periodic review to the users of financial statements, as well as to issuers and statutory auditors, including the most recurring deficiencies and discrepancies in respect of disclosures and applying accounting policies in financial statements,

which would be a support for the issuers in achieving high level of compliance with the reporting standards, in particular with IASs requirements.

Improved quality of the financial statements presented by issuers should also improve their comparability, in particular within individual industries, as well as increase investors' confidence in financial reporting and facilitate the assessment of property and financial situation and results of operations of issuers.

## **Chapter II. Most recurrent non-compliances and deficiencies in respect of IASs disclosure requirements**

### 1. Results of the review

The issues presented in this report were selected from amongst the vast scope of IAS-related issues revealed after the review. They include both the most recurring non-compliances and deficiencies relating to disclosures and the ones that, in the opinion of the authors, are worth noticing in this report.

Moreover, IASs requirements (mainly relating to disclosures) were selected that were applied in the majority of financial statements covered by the review, albeit not always in their full scope provided for in IASs.

When preparing the summary of non-compliances and deficiencies relating to disclosures required by IASs for Chapter II, it has been stated that presentation of such data broken down by particular issuers categories (e.g. issuers with capitalisation exceeding PLN 1 billion as on 28 December 2007, issuers with capitalisation below PLN 1 billion as on 28 December 2007, issuers who debuted on the Warsaw Stock Exchange in 2007) would be of little informational or educational value. The results of the review, aggregated in the abovementioned categories, showed that specific non-compliances and deficiencies relating to disclosures occurred both in the case of annual consolidated financial statements of lower-capitalised companies and in the case of higher-capitalised companies or companies that debuted on the Warsaw Stock Exchange in 2007 selected for review. In the case of annual consolidated financial statements of companies with high capitalisation and companies that have been longer listed on the regulated market, specific disclosures required by IASs were relatively often presented in an incomplete manner.

The authors are obliged to recommend to all companies, in particular issuers with lower capitalisation, that the quality of disclosures relating to financial instruments should be improved, which is of particular importance in the context of the present situation on financial markets.

Moreover, it should be stated that the reviewed consolidated financial statements for 2007 of certain issuers who often carried out diverse business operations and had assets and liabilities with complex structure were drawn up in such a way so that high compliance with IASs was kept.

### 2. Non-compliances and deficiencies in respect of IASs disclosure requirements for the analysed annual consolidated financial statements

Non-compliances, deficiencies or incomplete disclosures related to the following IASs requirements:

- Inclusion of an explicit and unreserved statement to the effect that they comply with IASs (IFRSs) adopted by the EU in financial statements (paragraph 14 of IAS 1 „*Presentation of Financial Statements*");
- Presentation of comparative information in respect of the previous period for all amounts reported in the financial statements (paragraph 36 of IAS 1);
- Identification of the financial statement (paragraphs 44 to 48 of IAS 1);
- Information to be presented on the face of the balance sheet (required in accordance with paragraphs 68 and 68A of IAS 1, paragraph 13 of IAS 28 „*Investments in*

*Associates*" and paragraph 38 of IFRS 5 „*Non-current Assets Held for Sale and Discontinued Operations*");

- Disclosures for each class of share capital (required in accordance with paragraph 76a of IAS 1);
- Description of the nature and purpose of each reserve within equity (paragraph 76b of IAS 1);
- Information to be presented on the face of the income statement (required in accordance with paragraph 81 of IAS 1, paragraph 38 of IAS 28 and paragraph 33 of IFRS 5);
- Separate disclosure of material items of income and expense (their nature and amount) (paragraph 86 of IAS 1);
- Presentation of expenses using a classification based on their nature (paragraph 93 of IAS 1);
- Each item on the face of the balance sheet, income statement, statement of changes in equity and cash-flow statement cross-referenced to any related information in the notes (paragraph 104 of IAS 1);
- Description of the measurement basis (or bases) in the summary of significant accounting policies (paragraphs 108 to 109 of IAS 1);
- Description of judgements the company management has made in the summary of significant accounting policies or other notes (paragraphs 113 to 115 of IAS 1);
- Disclosure of information about key sources of estimation uncertainty (paragraphs 116 to 124 of IAS 1);
- Disclosures regarding methods of the measurement of the cost of inventories (paragraph 36 of IAS 2 „*Inventories*");
- Disclosures regarding the amount of inventories recognised as an expense during the period (paragraph 36d of IAS 2);
- Presentation of cash flows related to the acquisition of equity or debt instruments of other entities (paragraph 16c of IAS 7 „*Cash-flow Statements*");
- Separate disclosures of cash flows arising from interest and dividends received and paid (paragraph 31 of IAS 7);
- Separate disclosures of cash flows arising from taxes on income and their classification as operating activities (paragraph 35 of IAS 7);
- Separate presentation of aggregate cash flows arising from acquisitions and from disposals of subsidiaries and their classification as investing activities (paragraph 39 of IAS 7);
- Disclosures regarding acquisitions or disposals of subsidiaries (paragraph 40 of IAS 7);
- Disclosure of the applied business combination method involving entities under common control (paragraph 3b of IFRS 3 „*Business Combinations*" and paragraphs 10 to 12 of IAS 8 „*Accounting Policies, Changes in Accounting Estimates and Errors*");
- Disclosures regarding new standards or interpretations (paragraphs 30 to 31 of IAS 8);
- Disclosure of the date when the financial statements were authorised for issue and who gave that authorisation (paragraph 17 of IAS 10 „*Events after the Balance Sheet Date*");

- Indication of reasons for not applying segment reporting in the entity's financial statements (IAS 14 „*Segment Reporting*");
- Disclosures for primary and secondary reporting formats (paragraphs 51 to 72 of IAS 14);
- Disclosures regarding measurement, impairment losses and depreciation of property, plant and equipment (paragraphs 73 to 79 of IAS 16 „*Property, Plant and Equipment*");
- Disclosure of the accounting policies adopted for the recognition of revenue (paragraph 35a of IAS 18 „*Revenue*");
- Correct types of exchange rates applied for translating monetary and non-monetary items of balance sheet in foreign currencies (paragraph 23 of IAS 21 „*The Effects of Changes in Foreign Exchange Rates*");
- Disclosures of key management personnel compensation (paragraph 16 of IAS 24 „*Related Party Disclosures*");
- Disclosures of transactions between related parties (paragraphs 17 to 18 of IAS 24);
- Presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity (paragraphs 33 to 34 of IAS 27 „*Consolidated and Separate Financial Statements*" and paragraph 96c of IAS 1);
- Disclosures regarding the relationship between the parent and subsidiaries (paragraph 40 of IAS 27);
- Disclosures regarding investments in associates and financial information of associates (paragraphs 37 to 40 of IAS 28);
- Presentation and disclosures regarding basic and diluted earnings per share (paragraphs 66 to 73 of IAS 33 „*Earnings per Share*");
- Disclosures regarding impairment losses (paragraphs 126 to 131 of IAS 36 „*Impairment of Assets*");
- Disclosures regarding intangible assets (paragraphs 118 to 127 of IAS 38 „*Intangible Assets*");
- Reconciliation of equity and reconciliation of the profit or loss related to transition to IFRSs (paragraphs 39 to 40 of IFRS 1 „*First-time Adoption of International Financial Reporting Standards*");
- Application of IFRS 2 „*Share-based Payment*" in the case of issue of managerial shares on preferential basis;
- Correct measurement of the goodwill acquired in a business combination (paragraphs 51 to 53 of IFRS 3);
- Requirement to conduct impairment test for goodwill (paragraph 55 of IFRS 3);
- Disclosures of information enabling evaluation of the nature and financial effect of business combinations (paragraphs 66 to 69 and 71 of IFRS 3);
- Disclosure of the revenue and the profit or loss of the combined entity for the period as though the acquisition date had been the beginning of the period (paragraph 70 of IFRS 3);



- Presentation of discontinued operations and information that enables users of the financial statements to evaluate the financial effects of discontinued operations (paragraphs 30 to 36 of IFRS 5);
- Presentation and description of non-current assets classified as held for sale (paragraphs 38 to 42 of IFRS 5);
- Disclosures regarding financial instruments broken down by classes and categories (paragraphs 6 to 8 of IFRS 7 „*Financial Instruments: Disclosures*“);
- Disclosures regarding collateral of financial instruments (paragraphs 14 to 15 of IFRS 7);
- Disclosure regarding the impact of financial instruments on entity’s profit or loss (paragraph 20 of IFRS 7);
- Disclosures regarding the fair value of financial assets and financial liabilities (paragraphs 25 to 30 of IFRS 7);
- Disclosures regarding the nature and extent of risks arising from financial instruments (paragraphs 31 to 42 of IFRS 7);
- Indication of a basis for excluding subsidiaries from consolidation.

### 3. Summary of the review

The authors of this report would like to point out again that while the issuers make the required disclosures, the scope of the presented information is often incomplete or the information are not fully clear and transparent.

Moreover, if the information required by a given IAS do not satisfy the objectives or the principles specified therein (or, for instance, when compliance with the specific requirements in IFRSs is insufficient to enable the users to understand the impact of transactions, events or conditions on the financial situation and financial profit or loss), the entity discloses additional information which satisfy those requirements (see e.g. paragraph 15c of IAS 1, paragraph 36A of IFRS 1, paragraph 52 of IFRS 2 or paragraph 77 of IFRS 3).

It should be taken into account that IASs often include statements supporting the disclosure of the full scope of information, such as: „Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include: (...)” (paragraph 50 of IAS 7, see also e.g. paragraph 79 of IAS 16, paragraph 72 of IAS 33, or paragraph 132 of IAS 36).

One should also take into account that certain IASs stipulate that an entity discloses specific information, unless their disclosure would be impracticable. In such case, if the disclosure of such information was impracticable, that fact should be disclosed together with explanation why it is impracticable (see e.g. paragraph 70 of IFRS 3). Definition of “impracticability” has been presented in paragraph 11 of IAS 1. This notion also appears in other IASs.

In the coming years, in order to meet the enforcement purposes, it is planned to continue the periodic review of compliance of issuers’ financial reporting with applicable reporting framework.

Chapter III of this report, entitled *Selected issues to be particularly considered when preparing financial statements in accordance with IASs*, presents in more detail the selected provisions of

IASs regarding presentation of financial statements, cash-flow statements, business combinations and consolidation, as well as financial instruments and impairment of assets. Highlighting disclosures regarding these areas was considered particularly important both as a result of the conducted review and due to the current situation on financial markets. Moreover, Chapter III presents the most important amendments made to IASs with respect to the future reporting periods, as well as issues relating to materiality in the context of consolidation of financial statements.

### **Chapter III. Selected issues to be particularly considered when preparing financial statements in accordance with IASs**

#### 1. Selected issues regarding presentation of financial statements

##### 1.1. Fair presentation and compliance with IFRSs

Paragraph 14 of IAS 1 „*Presentation of Financial Statements*“ stipulates that financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs (as applicable, taking materiality into account). The financial statements shall include an explicit and unreserved statement to the effect that they comply with IFRSs. The European Commission (and the Accounting Regulatory Committee) approved the following definition of identification of the applied accounting policy: „in accordance with all the International Financial Reporting Standards adopted for use in the EU” or „in accordance with all IFRSs adopted for use in the EU”.

In the event when an entity departs from the requirement provided for in the standard or interpretation, in accordance with paragraph 17 of IAS 1 (in the extremely rare circumstances in which management concludes that compliance with a requirement in a standard or an interpretation would be so misleading that it would conflict with the objective of financial statements set out in IASB Framework for the Preparation and Presentation of Financial Statements<sup>3</sup>, if a relevant regulatory framework requires or otherwise does not prohibit, such a departure), it makes disclosures in accordance with paragraph 18 of IAS 1 (see also paragraphs 19 to 22 of IAS 1).

When preparing financial statements, one should keep the manner of presentation and classification of items unchanged in subsequent periods (exceptions have been described in paragraphs 27 to 28 of IAS 1). Each material class of similar items is presented in the financial statements separately (paragraph 29 of IAS 1). One should also remember disclosures related to reclassification of comparative amounts when the presentation or classification of items in the financial statements has been amended (paragraphs 38 to 39 of IAS 1).

Provisions related to identification of the financial statements (paragraphs 44 to 48 of IAS 1) also include e.g. the requirements that each component of the financial statements shall be identified clearly and that the name of the reporting entity or other means of identification, information whether the financial statements cover the individual entity or a group of entities, the balance sheet date or the period covered by the financial statements, the presentation currency and the level of rounding shall be displayed prominently and repeated when it is necessary for a proper understanding of the information presented (paragraphs 46 to 47 of IAS 1).

Moreover, one should take into account the provision of paragraph 104 of IAS 1, introducing the obligation that each item on the face of the balance sheet, income statement, statement of changes in equity and cash-flow statement shall be cross-referenced to any related information in the notes. Please note that this provision also applies to statement of changes in equity and cash-flow statement.

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<sup>3</sup> *IASB Framework for the Preparation and Presentation of Financial Statements* – approved by IASB, not subject to adoption in the form of Commission Regulation to be applied within the EU.

## 1.2. Going concern principle

When management is aware, in making its assessment of the entity's ability to continue as a going concern, of any material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern (paragraph 23 of IAS 1).

In accordance with paragraph 24 of IAS 1, in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the balance sheet date.

It should be taken into account that if an entity intends or is forced to discontinue operations or to considerably limit their scope, financial statements may be prepared on the basis of other accounting policies (*these policies are disclosed*), in accordance with paragraph 14b of IAS 8 „*Accounting Policies, Changes in Accounting Estimates and Errors*” (see also point 23 of IASB Framework for the Preparation and Presentation of Financial Statements).

## 1.3. Presentation of the accounting policies

The entity shall fully and clearly disclose the applied accounting policies (in particular in a situation when the standards permit free choice, e.g. IFRS 1, or when they do not govern a specific area, e.g. emissions trading (see paragraphs 108 to 112 of IAS 1).

In accordance with paragraph 110 of IAS 1, certain standards require disclosing particular accounting policies, including policies adopted after they have been chosen by management from alternatives allowed in standards and interpretations (see e.g. paragraph 35 of IAS 18 “*Revenue*” regarding accounting policy adopted for recognising revenue, or paragraph 73 of IAS 16 “*Property, Plant and Equipment*” regarding measurement for each class of property, plant and equipment).

In their Public Statement of 12 January 2006 (Ref: CESR/05-758), CESR reminded issuers and investors about the importance of clear and transparent disclosure on the use of any options made available by applicable financial reporting standards (see [www.cesr.eu](http://www.cesr.eu)).

In accordance with paragraph 108 of IAS 1, the entity shall disclose in the summary of significant accounting policies the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Apart from the detailed accounting policies, also the measurement basis (or bases) used in preparing the financial statements should be disclosed (for example, historical cost or fair value). When more than one measurement basis is used in the financial statements, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied (paragraph 109 of IAS 1, see also points 99 to 101 of IASB Framework for the Preparation and Presentation of Financial Statements).

The entity should take into account the obligation to comply with the rules regarding accounting policies, including their selection and change, as presented in paragraphs 7 to 31 of IAS 8. Paragraphs 28 to 29 of IAS 8 present the scope of information to be disclosed:

- when initial application of a standard or an interpretation has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods,
- when a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods.

Paragraphs 30 to 31 of IAS 8 present the scope of information to be disclosed when an entity has not applied a new standard or interpretation that has been issued but is not yet effective.

Moreover, it should be pointed out that:

- paragraphs 113 to 115 and 123 of IAS 1 impose an obligation that the entity shall disclose, in the summary of significant accounting policies or other notes, the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements;
- paragraphs 116 to 122 and 124 of IAS 1 impose an obligation that an entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The issues regarding estimations have also been referred to in point 86 of IASB Framework for the Preparation and Presentation of Financial Statements.

#### 1.4. Balance sheet

As a minimum, the face of the balance sheet shall include line items required under paragraphs 68 and 68a of IAS 1, paragraph 38 of IFRS 5 „*Non-current Assets Held for Sale and Discontinued Operations*” and paragraph 13 of IAS 28 „*Investments in Associates*” (if applicable). Moreover, in respect of information to be disclosed on the face of the balance sheet, one should take into account the provisions of paragraphs 69 to 75 of IAS 1 relating e.g. to separate classifications of additional line items, further sub-classifications of the line items presented, including the abovementioned provisions of paragraph 29 of IAS 1.

Paragraphs 51 to 67 of IAS 1 refer to current and non-current assets and liabilities as separate classifications on the face of the balance sheet; the provisions include e.g. criteria for classification of line items in specific cases (e.g. paragraph 65 of IAS 1 regarding classification of a long-term loan agreement as current liability). Also IASB Framework for the Preparation and Presentation of Financial Statements (points 47 to 68 and 89 to 91) refer to elements relating to the establishment of financial position in the balance sheet.

Paragraph 38 of IFRS 5 refers to presentation of a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the balance sheet. Paragraph 38 of IAS 28 stipulates e.g. that investments in associates accounted for using the equity method shall be classified as non-current assets and their carrying amount shall be disclosed separately.

The entity shall also disclose either on the face of the balance sheet or in the notes information for each class of share capital as required in paragraph 76a of IAS 1 and a description of the nature and purpose of each reserve within equity (paragraph 76b of IAS 1).

We would like to point out that in accordance with paragraph 33 of IAS 27 „*Consolidated and Separate Financial Statements*”, minority interests shall be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

Presentation of individual components of equity in the statement of changes in equity and in the balance sheet should be consistent.

One should bear in mind that in respect of periods starting 1 January 2007 and later, there is an obligation that an entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital (paragraphs 124A to 124C of IAS 1).

Issuers should also remember that they are obliged to use the terminology compliant with the IASs instead of that resulting from the Accounting Act, e.g. „wartości niematerialne" (intangible assets) instead of „wartości niematerialne i prawne".

Moreover, Commission Regulation (EC) No 1274/2008 of 17 December 2008 has adopted a new IAS 1 „Presentation of Financial Statements" to be applied by all companies at the latest, as from the commencement date of its financial year starting after 31 December 2008, which provides for e.g. statement of financial position (previously referred to as the balance sheet).

### 1.5. Income statement

As a minimum, the face of the income statement shall include line items required in accordance with paragraph 81 of IAS 1, paragraph 38 of IAS 28 and paragraph 33 of IFRS 5 (if applicable) including paragraph 83 of IAS 1 which stipulates that additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance (see also paragraphs 84 and 86 to 87 of IAS 1). One should take into account paragraph 85 of IAS 1 which prohibits presentation of any items of income and expense as extraordinary items, either on the face of the income statement or in the notes. Elements relating to performance in the income statement have been also provided for in points 47 to 48, 69 to 80 and 92 to 98 of IASB Framework for the Preparation and Presentation of Financial Statements.

Paragraph 33 of IFRS 5 refers to e.g. presentation of the post-tax profit or loss of discontinued operations in the income statement.

Paragraph 38 of IAS 28 stipulates e.g. that investor's share in profit or loss of associates where investments are accounted for using the equity method shall be disclosed separately. Therefore investor's share in any discontinued operations of such associates shall also be disclosed separately.

It should be pointed out that in accordance with paragraphs 33 and 34 of IAS 27 and paragraph 82 of IAS 1, minority interests in the profit or loss of the group shall be separately disclosed (first the profit or loss is disclosed and then its division).

The financial statements shall present an analysis of expenses using a classification based on either the nature of the expenses or their function within the entity, whichever provides information that is reliable and more relevant (paragraphs 88 and 94 of IAS 1). It should be noted that entities classifying expenses by function shall disclose additional information on the nature of expenses (see paragraph 93 of IAS 1).

It should be also taken into account that an entity shall present on the face of the income statement basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity (paragraph 66 of IAS 33). The entity should calculate those amounts in accordance with IAS 33 and make the required disclosures (paragraphs 66 to 73 of IAS 33 "*Earnings per Share*").

Moreover, Commission Regulation (EC) No 1274/2008 of 17 December 2008 has adopted a new IAS 1 „Presentation of Financial Statements" to be applied by enterprises no later than from the beginning of the financial year starting after 31 December 2008, which provides for e.g. statement of comprehensive income (previously referred to as the income statement and additional line items).

## 2. Selected issues relating to cash-flow statement

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows (in accordance with the objective of the cash-flow statement as described in IAS 7 “*Cash-Flow Statements*”).

In accordance with paragraph 4 of IAS 7, a cash-flow statement, when used in conjunction with the rest of financial statements, provides information that allows users to evaluate changes in the net assets of the entity, its financial structure (including liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.

It should be pointed out that provisions of IAS 1 relating to presentation of accounting policies (paragraphs 108 to 115 of IAS 1) also refer to cash flows. One of the disclosures in this respect is disclosure of the policy adopted in determining the composition of cash and cash equivalents (paragraph 46 of IAS 46).

One should bear in mind that also each item of the cash-flow statement should include a cross-reference if data relating to such item have also been presented in the notes (see paragraph 104 of IAS 1).

Issuers should also note the following selected issues relating to the presentation of statements of cash flows (the need to highlight those issues has been revealed during the review):

In accordance with paragraph 12 of IAS 7, a single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

In accordance with paragraph 21 of IAS 7, an entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that the cash flows described in paragraphs 22 and 24 of IAS 7 are reported on a net basis.

Moreover, separate disclosures are made of cash flows arising from interest and dividends received and paid (paragraph 31 of IAS 7).

Requirements regarding disclosures of dividends received and paid have also been imposed by IAS 1. In accordance with paragraph 95 of IAS 1, an entity shall disclose, either on the face of the income statement or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share. Moreover, in accordance with paragraph 125 of IAS 1, an entity shall disclose in the notes:

- a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period, and the related amount per share; and
- b) the amount of any cumulative preference dividends not recognised.

Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities (paragraph 35 of IAS 7).

The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as investing activities (paragraph 39 of IAS 7).

In accordance with paragraph 33c of IFRS 5, an entity shall disclose the net cash flows attributable to the operating, investing and financing activities of discontinued operations either in the notes or on the face of the financial statements.

Moreover, an entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its cash-flow statement with the equivalent items reported in the balance sheet (paragraph 45 of IAS 7). One should remember about disclosures of transactions that do not require the use of cash or cash equivalents (paragraph 43 of IAS 7) and cash and cash equivalent balances held by the entity that are not available for use by the group (paragraph 48 of IAS 7).

Issuers should take into account (and apply this rule when preparing financial statements) that also IAS 7 includes requirements relating to disclosures in respect of both acquisitions and disposals of subsidiaries or other business units. In such case, in accordance with paragraph 40 of IAS 7, for each period, an entity shall disclose, in aggregate:

- a) the total purchase or disposal consideration;
- b) the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;
- c) the amount of cash and cash equivalents in the subsidiary or business unit acquired or disposed of; and
- d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarised by each major category.

### 3. Selected issues relating to business combinations and consolidation

#### 3.1. Business combinations

IFRS 3 “*Business Combinations*” indicates the following basic disclosures to be made by the acquirer:

- disclosing information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that were effected both during the period (paragraph 66a of IFRS 3) and after the balance sheet date but before the financial statements are authorised for issue (paragraph 66b of IFRS 3);
- disclosing information that enables users of its financial statements to evaluate the financial effects of gains, losses, error corrections and other adjustments recognised in the current period that relate to business combinations that were effected in the current or in previous periods (paragraph 72 of IFRS 3).

One should also remember about the obligation to disclose information in respect of both acquisitions and disposals of subsidiaries or other business units, provided for in paragraph 40 of IAS 7.

In order to meet the requirements specified in paragraph 66a of IFRS 3, the acquirer discloses, in respect of each business combination that was effected during the period (except for cases described in paragraph 68 of IFRS 3), information required in paragraph 67 of IFRS 3.

In the case of paragraph 67d of IFRS 3, issuers should note the obligation to describe the components of the cost of the combination, including any costs directly attributable to the combination.

It should be noted that the obligation resulting from paragraph 67f of IFRS 3 to disclose the amounts recognised at the acquisition date (at fair value – see paragraph 36 of IFRS 3) and carrying amounts determined in accordance with IFRSs, immediately before the combination, applies to each class of the acquiree’s assets, liabilities and contingent liabilities.



One should differentiate between the date of acquisition and the date of exchange in accordance with IFRS 3. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Date of exchange (used e.g. to measurement of cost of a business combination), in the case when business combination involves more than one exchange transaction, is the date on which each individual investment is recognised in the financial statements of the acquirer. When a business combination is achieved in a single exchange transaction, date of exchange is the acquisition date (see Appendix A of IFRS 3 forming an integral part of that Standard, and paragraph 25 of IFRS 3).

Paragraph 69 of IFRS 3 stipulates that if the initial accounting for a business combination that was effected during the period has been determined only provisionally, the entity should disclose that fact; and an explanation of why this is the case (see paragraph 62 of IFRS 3).

Moreover, paragraph 70 of IFRS 3 in order to meet the obligation specified in paragraph 66a of IFRS 3, requires that the acquirer disclosed the revenue and the profit or loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of the period.

To give effect to the principle in paragraph 66b of IFRS 3, the acquirer discloses information required by paragraph 67 of IFRS 3 for each business combination effected after the balance sheet date but before the financial statements are authorised for issue (paragraph 71 of IFRS 3).

In order to meet the obligation specified in paragraph 72 of IFRS 3, the acquirer discloses information required by paragraph 73 of IFRS 3, e.g. if the initial accounting for a business combination that was effected in the immediately preceding period was determined only provisionally at the end of that period, the amounts, and explanations, of adjustments to the provisional values recognised during the current period (see paragraph 69 of IFRS 3).

Moreover, the entity discloses information that enables users of its financial statements to evaluate changes in the carrying amount of goodwill during the period (paragraph 74 of IFRS 3). The scope of the required information related to reconciliation of the carrying amount of goodwill at the beginning and end of the period has been presented in paragraph 75 of IFRS 3. In accordance with paragraph 52 of IFRS 3, goodwill acquired in a business combination represents payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized.

Paragraph 55 of IFRS 3 stipulates that goodwill arising in a business combination shall not be amortised. Instead, the acquirer shall test it for impairment annually (or more frequently, if events or changes in circumstances indicate that the goodwill might be impaired), in accordance with IAS 36 „*Impairment of Assets*“.

IFRS does not provide for recognition of the “negative goodwill” as a result of business combination.

We would like to remind that if the entity applies provisions of paragraphs 10 to 12 of IAS 8 in respect of business combination involving entities or businesses under common control, to which IFRS 3 stipulates that does not apply (see paragraph 3b and paragraphs 10 to 13 of IFRS 3), the entity should disclose the description of the applied method of accounting for business combination.

### 3.2. Disclosures relating to the consolidation of financial statements

Paragraph 40 of IAS 27 „*Consolidated and Separate Financial Statements*“ specifies the scope of information the disclosure of which is obligatory in the consolidated financial statements, i.e.:

- the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control (in accordance with paragraph 13 of IAS 7 control is presumed to exist when the parent company owns, directly or indirectly through its subsidiaries, more than half of the voting rights of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control);
- the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power (in accordance with paragraph 13 of IAS 7 control also exists when the parent company owns half or less of the voting power of an entity and when it meets the additional requirements specified in paragraph 13);
- the reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period; and
- the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances.

It should be noted that also IAS 24 “*Related Party Disclosures*” refers to the relationship between parent entity and subsidiaries. Paragraph 12 of IAS 24 stipulates that relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. In accordance with paragraph 14 of IAS 24, the identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in IAS 27, IAS 28 „*Investments in Associates*”, and IAS 31 „*Interests in Joint Ventures*”, which require an appropriate listing and description of significant investments in subsidiaries, associates and jointly controlled entities.

### 4. Selected issues relating to financial instruments

Particular importance of the review of the method of application of IFRS 7 “*Financial Instruments: Disclosures*” for financial statements for 2007 is related both to the importance of disclosures relating to financial instruments for users of financial statements in the context of the present situation on financial markets and to the fact that 2007 was the first year this standard was applied by the supervised entities.

Consequently to the application of IFRS 7 by an entity, disclosures regarding financial instruments should be more extensive and more detailed.

Availability of data related to financial instruments included in financial statements should be improved.

When applying IFRS 7, an entity is particularly obliged to disclose information that enables users of its financial statements to:

- evaluate the significance of financial instruments for its financial position and performance (paragraph 7),
- evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date (paragraph 31).

#### 4.1. Classes and categories

In accordance with paragraph 6 of IFRS 7, when IFRS 7 requires disclosures by class<sup>4</sup> of instrument, the entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The entity shall provide sufficient information to permit reconciliation to the line items presented in the balance sheet.

The notion of class in this meaning has also been used in paragraphs 13, 16, 20, 25, 26, 27, 28, 36 and 37 of IFRS 7.

In accordance with paragraph 8 of IFRS 7, the carrying amounts of each of the following categories, as defined in IAS 39 „*Financial Instruments: Recognition and Measurement*”, shall be disclosed either on the face of the balance sheet or in the notes:

- a) financial assets at fair value through profit or loss, showing separately: i) those designated as such upon initial recognition; and ii) those classified as held for trading in accordance with IAS 39;
- b) held-to-maturity investments;
- c) loans and receivables;
- d) available-for-sale financial assets;
- e) financial liabilities at fair value through profit or loss, showing separately: i) those designated as such upon initial recognition; and ii) those classified as held for trading in accordance with IAS 39;
- f) financial liabilities measured at amortised cost.

Therefore particular attention should be paid to explanation of application, presented in Appendix B of IFRS 7, forming an integral part of the Standard, where it has been stated (points B1 and B2) that:

- in accordance with paragraph 6 of IFRS 7, the entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from categories of financial instruments defined in IAS 39 (which determine how financial instruments are measured and where changes in fair value are recognized),
- when defining classes of financial instruments, an entity shall at least:
  - a) distinguish instruments measured at amortised cost from those measured at fair value;
  - b) treat as a separate class or classes those financial instruments outside the scope of IFRS 7.

Therefore one should distinguish the entity's obligation to group financial instruments into classes within the meaning of paragraph 6 of IFRS 7 from the obligation to recognise financial instruments by categories within the meaning of paragraph 8 of IFRS 7.

#### 4.2. Disclosures related to fair value measurement

In accordance with paragraph 25 of IFRS 7, for each class of financial assets and financial liabilities, the entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

In a situation when the conditions of paragraph 29 of IFRS 7 are met, disclosures of fair value are not required. However, in cases specified in paragraphs 29b) and c) of IFRS 7, an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, in accordance with paragraph 30 of IFRS 7.

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<sup>4</sup> In the Polish version of the Standard, this term has been inappropriately translated as “kategoria” (category).

The entity should note the obligation imposed in paragraph 27 of IFRS 7 to disclose e.g. the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities, as well as whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique.

When establishing fair value of a financial asset or liability in order to apply IAS 39, IAS 32 “*Financial Instruments: Presentation*” or IFRS 7, an entity applies points AG69-AG82 of Appendix A of IAS 39, forming an integral part of that Standard (see paragraph 48 of IAS 39). Issues regarding measurement of financial instruments at fair value in active market conditions (quoted prices) and in the case when there is no active market (valuation techniques) have been presented in points AG71-AG73 and AG74-AG79 of Appendix A of IAS 39, respectively.

We would like to point out that on 3 October 2008 CESR presented their statement on fair value measurement and related disclosures of financial instruments in illiquid markets.<sup>5</sup>

#### 4.3. Disclosing items of income, expense, gains or losses related to financial instruments

It must be pointed out that (clear and explicit) disclosure of items of income, expense, gains or losses relating to financial instruments is particularly important for users of financial statements. In the case when an entity does not present on the face of the financial statements disclosures in the extent required by paragraph 20 of IFRS 7, it shall present them in the notes.

Moreover, issuers should take into account that a financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, an entity: currently has a legally enforceable right to set off the recognised amounts, and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (paragraph 42 of IAS 32, see also paragraphs 43 to 50 of IAS 32 and paragraph 36 of IAS 39).

#### 4.4. Nature and extent of risk arising from financial instruments

The financial risk disclosures required by paragraphs 33 to 42 of IFRS 7 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk. The market risk includes three types of risks: interest rate risk, currency risk and other price risk (see paragraph 32 of IFRS 7 and definitions in Appendix A of IFRS 7, forming an integral part of the Standard).

For each type of risk arising from financial instruments, the entity shall make qualitative disclosures in accordance with paragraph 33 of IFRS 7 and quantitative disclosures in accordance with paragraphs 34 to 42 of IFRS 7. It should be noted that the Standard requires disclosures to be made for each type of risk („These risks typically include, but are not limited to, credit risk, liquidity risk and market risk,,), unless the risk is not material (see paragraphs 32 and 34b of IFRS 7).

Issuers should note that the entity discloses concentrations of risk if such information is not apparent from paragraphs 34a and 34b of IFRS 7 (see paragraph 34b of IFRS 7 and point B8 of Appendix A of IFRS 7). Moreover, if the quantitative data disclosed as at the reporting date are

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<sup>5</sup> CESR Statement - Fair value measurement and related disclosures of financial instruments in illiquid markets, 3 October 2008. (Ref: CESR/08-713b), website: [http://www.cesr.eu/index.php?page-document\\_details&id=5285&from\\_id=13](http://www.cesr.eu/index.php?page-document_details&id=5285&from_id=13)

unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative (paragraph 35 of IFRS 7).

It should be noted that in accordance with paragraph 6 of IFRS 7, when IFRS 7 requires disclosure by class of instrument, the entity shall provide sufficient information to permit reconciliation to the line items presented in the balance sheet.

#### 4.5. Amendments to IAS 39 and IFRS 7 related to the reclassification of financial assets

Commission Regulation (EC) No 1004/2008 of 15 October 2008<sup>6</sup> has introduced amendments to IAS 39, consisting in amending paragraph 50 and point AG8 in Appendix A and in adding paragraphs 50B to 50F and 103G.

The introduced amendments change the rules relating reclassification of financial instruments between particular categories within the meaning of paragraph 9 of IAS 39. Effective date and transitional provisions for the amended reclassification rules have been presented in paragraph 103G of IAS 39.

Commission Regulation (EC) No 1004/2008 has also introduced, in a situation when an entity reclassified a financial asset out of the fair value through profit or loss category (in accordance with paragraph 50 B or 50 D of IAS 39) or out of the available-for-sale category (in accordance with paragraph 50E of IAS 39), a disclosure requirement for such reclassification (paragraph 12 A of IFRS 7).

Moreover, one should remember about disclosures required by paragraph 12 of IFRS 7 in the case of reclassification of a financial asset in accordance with paragraph 51 to 54 of IAS 39.

Effective date for amendments introduced to IFRS 7 regarding disclosures related to reclassification has been presented in paragraph 44E of IFRS 7.

#### 5. Selected issues relating to impairment of assets

An entity shall disclose, for each class of assets, information related to impairment losses required by paragraph 126 of IAS 36 „*Impairment of Assets*”. A class of asset is a grouping of assets of similar nature and use in an entity's operations (paragraph 127 of IAS 36).

Paragraph 126a and b of IAS 36 requires that in the case of impairment losses or of reversals of impairment losses recognised in profit or loss during the period, their amount and the line item(s) of the income statement in which those impairment losses are included or in which those impairment losses are reversed were disclosed.

In accordance with paragraph 128 of IAS 36, information required by paragraph 126 of IAS 36 may be presented with other information disclosed for the class of assets. In the case of property, plant and equipment in the financial statements, for each class of property, plant and equipment, the entity shall disclose a reconciliation of the carrying amount at the beginning and end of the period showing e.g. impairment losses recognised in profit or loss in accordance with IAS 36 and impairment losses reversed in profit or loss in accordance with IAS 36 (paragraph 73 of IAS 16). Similar requirements apply e.g. to intangible assets (see paragraph 118 of IAS 38 “*Intangible Assets*”).

It should be also taken into account that also for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit, an entity shall disclose the information required by paragraph 130 of IAS 36, e.g. the events and circumstances that led to the recognition or reversal of the impairment loss (as well

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<sup>6</sup> Commission Regulation (EC) No 1004/2008 of 15 October 2008 amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 39 and International Financial Reporting Standard (IFRS) 7 (OJ L 275 of 16.10.2008 p. 37)

as disclosures for the aggregate impairment losses that are not individually material – see paragraph 131 of IAS 36).

An entity that reports segment information shall disclose for each reportable segment information required by paragraph 129 of IAS 36. This applies both to segment reporting in accordance with IAS 14 and to reporting in accordance with IFRS 8 “*Operating Segments*”.

In accordance with paragraphs 134 and 135 of IAS 36, an entity shall disclose estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives.

It should be noted that in respect of disclosures required by paragraphs 134 and 135 of IAS 36 it is necessary to apply the provisions of paragraph 116 of IAS 1 regarding disclosure of the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date. The disclosures should be presented in a manner that helps users of financial statements to understand the judgements management makes about the future and about other key sources of estimation uncertainty, although the nature and extent of the information provided vary according to the nature of the assumptions and other circumstances. Example of the disclosure made has been presented in paragraph 120 of IAS 1.

In the case of goodwill, provisions of IAS 36 and IFRS 3 “*Business combinations*” are complementary to each other, also in respect of the required disclosures. Paragraph 55 of IFRS 3 stipulates that goodwill acquired in a business combination shall not be amortised. Instead, an impairment test shall be performed annually (or more frequently, if events or changes in circumstances indicate that the goodwill might be impaired), in accordance with IAS 36 (see also paragraphs 80 to 99 of IAS 36 regarding allocation of goodwill to cash-generating units and dates of impairment tests).

In accordance with paragraph 124 of IAS 36, an impairment loss recognised for goodwill shall not be reversed in a subsequent period.

Paragraph 76 of IFRS 3 stipulates that an entity shall disclose information about the recoverable amount and impairment of goodwill in accordance with IAS 36 in addition to the information required to be disclosed by paragraph 75e of IFRS 3, i.e. information about impairment losses recognised during the period in accordance with IAS 36.

Moreover, in accordance with paragraph 133 of IAS 36, if any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the reporting date, the amount of the unallocated goodwill shall be disclosed (see paragraph 84 of IAS 36), together with the reasons why that amount remains unallocated.

## 6. Major changes in applying IASs

### 6.1. Application of IAS-compliant accounting policies

In accordance with Article 3 (1) of Regulation (EC) No 1606/2002 of the European Parliament and of the Council<sup>7</sup>, the European Commission shall decide on the applicability within the Community of international accounting standards. Article 3 (4) of the abovementioned Regulation stipulates that adopted international accounting standards shall be published in full in each of the official languages of the Community, as a Commission Regulation, in the *Official Journal of the European Communities*.

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<sup>7</sup> Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243 of 11.9.2002, p. 1; OJ EU special Polish edition, chapter 13, vol. 29, p. 609) and Regulation (EC) No 297/2008 of the European Parliament and of the Council of 11 March 2008 amending Regulation (EC) No 1606/2002 on the application of international accounting standards (OJ L 97 of 9.4.2008, p. 62)

In accordance with the requirements of paragraphs 10 to 12 of IAS 8 “*Accounting Policies, Changes in Accounting Estimates and Errors*”, in the absence of a Standard or an Interpretation that specifically applies to a transaction, other event, or condition, management shall use its judgement in developing and applying an accounting policy (...).

In making the judgement, management shall refer to, and consider the applicability of, the sources referred to in paragraph 11 of IAS 8 and in the order specified therein. In making the judgement, management may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11 of IAS 8 (paragraph 12 of IAS 8).

We would like to point out that in making the judgement, management may also consider the provisions of the Accounting Act<sup>8</sup> and the domestic accounting standards issued by the Accounting Standards Committee, provided the conditions of IAS 8 have been met.

## 6.2. Amendments to IASs in respect of future reporting periods

- 1) Commission Regulation (EC) No 1274/2008 of 17 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 1.  
All businesses apply the new IAS 1 “*Presentation of Financial Statements*” (as well as the provisions of other IASs amended by this Regulation) at the latest, as from the commencement date of its financial year starting after 31 December 2008;
- 2) Commission Regulation (EC) No 1263/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretation Committee's (IFRIC) Interpretation 14.  
All businesses apply IFRIC 14 „*IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction*” at the latest, as from the commencement date of its financial year starting after 31 December 2008;
- 3) Commission Regulation (EC) No 1262/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretation Committee's (IFRIC) Interpretation 13.  
All businesses apply IFRIC 13 “*Customer loyalty programmes*” at the latest, as from the commencement date of its financial year starting after 31 December 2008;
- 4) Commission Regulation (EC) No 1261/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 2.  
All businesses apply the amended IFRS 2 “*Share-based Payment*” at the latest, as from the commencement date of its financial year starting after 31 December 2008;
- 5) Commission Regulation (EC) No 1260/2008 of 10 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 23.

<sup>8</sup> The Accounting Act of 29 September 1994 (Dz. U. of 2002 No. 76, item 694, as amended)

All businesses apply the new IAS 23 “*Borrowing Costs*” (as well as the provisions of other IASs amended by this Regulation) at the latest, as from the commencement date of its financial year starting after 31 December 2008;

- 6) Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.  
Commission Regulation (EC) introducing a consolidated text containing all international accounting standards adopted by the Community until 15 October 2008 and repealing Commission Regulation (EC) No 1725/2003 as amended;
- 7) Commission Regulation (EC) No 1004/2008 of 15 October 2008 amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 39 and International Financial Reporting Standard (IFRS) 7. Dates of application of amendments made to IAS 39 and IFRS 7 have been presented respectively in paragraph 103G of the amended IAS 39 and in paragraph 44E of the amended IFRS 7;
- 8) Commission Regulation (EC) No 1358/2007 of 21 November 2007 amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 8.  
All businesses apply the new IFRS 8 “*Operating Segments*” (as well as the provisions of other IASs amended by this Regulation) as from the commencement date of its 2009 financial year at the latest;
- 9) Commission Regulation (EC) No 611/2007 of 1 June 2007 amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretation Committee's (IFRIC) Interpretation 11.  
All businesses apply IFRIC 11 „*IFRS 2 - Group and Treasury Share Transactions*” as from the commencement date of its 2008 financial year at the latest, except for companies with a January or February (2008) commencement date which shall apply IFRIC 11 as from the commencement date of the 2009 financial year at the latest.

We also inform that Commission Regulations (EC) relating to IASs, also in Polish, are available at: [http://ec.europa.eu/internal\\_market/accounting/ias\\_en](http://ec.europa.eu/internal_market/accounting/ias_en).

Commission Regulations (EC) relating to IASs are also available at: [http://www.knf.gov.pl/rynek\\_kapitalowy/unia/Regulacje\\_UE/Rachunkowosc.html](http://www.knf.gov.pl/rynek_kapitalowy/unia/Regulacje_UE/Rachunkowosc.html).

We also remind that

- when initial application of a Standard or an Interpretation has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose the information required in paragraph 28 of IAS 8 “*Accounting Policies, Changes in Accounting Estimates and Errors*”,
- when an entity has not applied a new Standard or Interpretation that has been issued but is not yet effective, the entity shall disclose the information required in paragraph 30 of IAS 8 (see also paragraph 31 of IAS 8).

### 6.3. Materiality - consolidation

Publication of Regulation (EC) No 1606/2002 imposing an obligation for specific entities to prepare consolidated financial statements in accordance with IASs triggered discussion on the



application of provisions of the Regulation in the context of the provisions of the Seventh Council Directive.<sup>9</sup>

Provisions of the Seventh Council Directive, implemented to the national legislation, concern exemptions from the requirement to prepare consolidated financial statements. In the event when an entity is not obliged to prepare consolidated financial statements as a result of such an exemption, the requirement to prepare consolidated financial statements in accordance with IASs does not apply because there are no "consolidated financial statements" to which that obligation would apply.

As for the scope of consolidation, including exclusions, i.e. which entities should be recognised in the consolidated financial statements and the method of such recognition, it is provided for in IASs. Therefore Article 58 (1) of the Accounting Act, implementing Article 13 of the Seventh Council Directive, on the basis of which immaterial entities are not required to be consolidated, does not apply.

IAS 27 "*Consolidated and Separate Financial Statements*" does not include provisions on the basis of which, and on the basis of the materiality criterion, it would be possible to exclude subsidiaries from consolidation (see paragraph 12 of IAS 27).

However, in accordance with paragraph 31 of IAS 1 "*Presentation of Financial Statements*", applying the concept of materiality means that a specific disclosure requirement in a standard or an interpretation need not be satisfied if the information is not material. In accordance with paragraph 8 of IAS 8 "*Accounting Policies, Changes in Accounting Estimates and Errors*" the accounting policies provided for in IFRSs need not be applied if the effect of their application is immaterial. Omissions or misstatements are considered material in paragraph 5 of IAS 8 if they could, individually or collectively, influence economic decisions made by users on the basis of the financial statements. Materiality depends on the size and type of omissions or misstatements evaluated in the context of the given circumstances. The size or type of the item, or the combination of both, can be a decisive factor. Also points 29 and 30 of IASB Framework for the Preparation and Presentation of Financial Statements refer to the notions of materiality and relevance.

The position of PFSA (and earlier, of the Polish Securities and Exchange Commission) on the situation when an issuer whose securities are listed on a regulated market has one subsidiary (which, in the opinion of the issuer, has no material impact on his operations) and who would like to refrain from the preparation of the consolidated financial statements („*Stanowisko dotyczące sprawozdań finansowych w raportach okresowych*" of 21 March 2006) has been published at: [http://www.knf.gov.pl/Images/stanowisko\\_1\\_tcm20-6360.pdf](http://www.knf.gov.pl/Images/stanowisko_1_tcm20-6360.pdf)

The European Commission has prepared a proposal of amendments to the Seventh Council Directive<sup>10</sup>, permitting that entities whose subsidiaries are immaterial, both individually or as a whole, would be exempted from the obligation to prepare consolidated financial statements. The amendment is aimed at eliminating doubts as to the relationship between Regulation (EC) No 1606/2002 and the Seventh Council Directive.

As on the date of this report, legislative process on the amendment of the Seventh Council Directive has been in progress.

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<sup>9</sup> Seventh Council Directive of 13 June 1983 based on Article 54(3)(g) of the Treaty on consolidated accounts (83/349/EEC) (OJ L 193 of 18.7.1983, p. 1, as amended), special Polish edition, chapter 17, vol. 01, p. 58 - 74

<sup>10</sup> Website: [http://eur-lex.europa.eu/Result.do?RechType=RECH\\_celex&lang=pl&ihmlang=en&code=52008PC0195](http://eur-lex.europa.eu/Result.do?RechType=RECH_celex&lang=pl&ihmlang=en&code=52008PC0195)