

## Accounting Systems in Poland and Croatia - comparative study \*

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**Abstract:** *Central and Eastern European countries undergo many political, structural, social and economic changes. In the past decades such countries, like Croatia and Poland, witnessed a fundamental transformation of their societies and economies, which impacted accounting systems as well. The main goal of the paper is to research the main differences in accounting systems in the Republic of Croatia and Poland. The research methodology is based on a critical analysis of scholarly literature done by the bibliometric analysis, analysis Polish and Croatian accounting standards and legal acts. Based on inductive and deductive reasoning, the paper reveals key determinants and differences of accounting frameworks in Croatia and Poland. The paper proves that it is crucial to consider economic and cultural differences in comparative international accounting research. Research results of the paper will contribute the international accounting literature but also have an impact on the European Union accounting harmonisation references.*

**Keywords:** Accounting; Croatia; International standards; Poland

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## Introduction

Central and Eastern Europe has attracted increasing attention over the last 20 years - economically, politically, and from the research standpoint. Such countries like Croatia and Poland as transition economies undergo many political, structural, social and economic changes and transformations. These changes influence in particular accounting system in these countries, as accounting is a main system of collecting, storing and processing financial and nonfinancial data, used by many different decision makers. There are numerous features and determinants that differ accounting systems among the countries. Furthermore, the differences in an accounting field are generated by the fact that managers select accounting policies and make accounting estimates in accordance with proper financial reporting standards applicable in a country. Despite the harmonization process of accounting standards on an international basis, there are still cultural, economic and legal differences among countries. Despite these differences, the accounting system constitute the most reliable source of data as used by different stakeholders.

Taking into account the multiplicity of factors determining the accounting system in CEECs countries, and at the same time the small interest in this area in previous research in Croatia and Poland, this study seeks to explain the differences of the accounting field in the Republic of Croatia and Poland. Therefore, we state the following thesis:

- 1) the small interest in this comparative international accounting research in previous research in Croatia and Poland creates is a valuable scientific niche;
- 2) in comparative international accounting research there is crucial to consider economic and cultural differences;
- 3) there are some crucial differentiating culture factors of Poland and Croatia, determining the accounting system in these countries.

This paper is to contribute to the understand of the differences of the accounting field in the Republic of Croatia and Poland. The paper proves that it is crucial to consider economic and cultural differences in comparative international accounting research. Due to the small interest in this area in previous research in the analysed countries, which was confirmed by a bibliometric analysis, it is a valuable scientific niche. The Hofstede analysis also proves that there are differentiating culture factors of Poland and Croatia, which may influence accounting system in these countries. A comparative analysis of the applicable accounting standards in Croatia and Poland enables, in turn, indicate the main difference in analysed systems in the economic and cultural context. The indicated determinants form the basis for further analysis related to the normalization and standardization of the accounting area in these countries. The research methodology is based on a critical analysis of scholarly literature done by the bibliometric analysis, analysis Polish and Croatian accounting standards

and legal acts. Based on inductive and deductive reasoning the paper reveals key determinants and differences of accounting frameworks in Croatia and Poland. Research results of the paper will contribute the international accounting literature but also have an impact on European Union accounting harmonisation references.

### **International accounting as a subject of the comparative analysis in literature**

Historically, accounting and financial reporting grew up largely independently, and often very differently in different countries (Jindrichovska, 2004). Accounting values most relevant to the professional or statutory authority for accounting systems and their enforcement would seem to be the professionalism and uniformity dimensions in that they are concerned with regulation and the extent of enforcement or conformity (Gray, 1988). The differences in the demand for accounting income in different institutional contexts cause its properties to vary internationally (Ball et al., 2000).

International accounting literature generally argues that accounting is largely influenced by the environment found in different countries (Gray, 1988; Choi and Mueller, 1992; Ali and Hwang, 2000; Zeghal and Mhedhbi, 2006; Soderstrom, 2007; Ding et al., 2007; Parker, 2008; Daske et al., 2013; Barth, 2008). According to Alhashim and Arpan (1992), the most important environmental forces influencing accounting system are:

- economic forces,
- social forces,
- the legal system,
- culture, and
- the political system.

Radebaugh et.al. (2006) also stress that there are several features on international differences when it comes to accounting; such as the specifics of legal and tax systems, sources of financing, the development of financial markets, profession, inflation, the level of economic development and social issues, cultural differences, etc. Therefore, it can be concluded that the country's choice of accounting relating a specific set of accounting standards, policies, and practices is the result of an interactive process among a number of environmental factors (Zeghal and Mhedhbi, 2006). Understanding why there have been the differences in financial reporting in the past, why they continue in the present, and will not disappear in the future (Parker, 2008), is on the one hand one of the main themes of comparative international accounting. At the same time this is a huge challenge for business using variously prepared financial statements, issued on various books of account according to different accounting standards.

The area of comparative international accounting has developed as a significant focus of accounting research and education since the 1980s (Borker, 2012). However,

a bibliometric analysis, based on the scientific paper in Web of Science's database relating international accounting with the comparative analysis in 1945-2017, reveals significant interest in this area. The data base is created by 1,115 publications. As the table 1 shows this research area is popular around the world.

Table 1: Scientific interest of international accounting with the comparative analysis measured by the number of publications in different countries in 1945-2017

Countries/Regions	Number of publications	% of 1,115
USA	240	21.525 %
England	156	13.991 %
Germany	99	8.879 %
France	70	6.278 %
Canada	63	5.650 %
China	61	5.471 %
Australia	58	5.202 %
...	...	...
Poland	14	1.256 %
Croatia	3	0.269 %

Source: Own elaboration based on Web of Science` database relating international accounting with the comparative analysis in 1945-2017.

The table 1 presents that the most international accounting research is carried out in USA, England, Germany and France. Only 1.256 % of 1115 publications relating international accounting with the comparative analysis comes from Poland, and 0.269 % - from Croatia. The analysed research area is still a niche in Poland and Croatia.

### **The factors affecting the accounting systems in Poland and Croatia**

This paper tries to contribute to the understanding of comparative international accounting in the context of Croatian and Polish differences, and also in the context of developments in these countries. History of both countries is similar to other of this region in Europe with experience in the scope of the centrally planned economy and move in the same direction – the free market economy (Grabiński et al., 2016) and then European Union access (Poland in 2004, and Croatia in 2013).

Taking into account the above-mentioned factors differentiating accounting systems in individual countries, it is necessary to compare the key economic data of both countries. Table 2 summarizes the key information about economic conditions in Croatia and Poland.

Table 2: Selected economic information on Poland and Croatia in 2016-2017

	Croatia		Poland	
	Year of data			Year of data
GDP Mill.\$	2016	50,731M.\$	526,047M.\$	2017
GDP per capita	2016	12,165\$	13,853\$	2017
Debt (%GDP)	2016	82.90%	54.10%	2016
Deficit (%GDP)	2016	-0.90%	-2.50%	2016
Trade balance % GDP	2016	-15.74%	0.09%	2017
Corruption Index	2017	49	60	2017
Competitiveness Ranking	2017	74°	39°	2017
Innovation Ranking	2016	47°	39°	2016
Unemployment Rate	January 2018	9.8%	4.5%	January 2018
Average Wage	2015	13,833\$	13,079\$	2015
Human Capital Ranking	2015	36°	28°	2015
Currency Exchange Rate - Polish Zloty / Croatian kunas	03/13/2018	6.0377	4.2013	03/12/2018
Doing Business	2018	51°	27°	2018
Standard VAT	01/01/2013	25.00%	23.00%	01/01/2011
Population	2016	4 154 213	37 972 964	2016
CO <sup>2</sup> Tons per capita	2015	4.84	7.64	2015

Source: Country comparison Croatia vs Poland (<https://countryeconomy.com>).

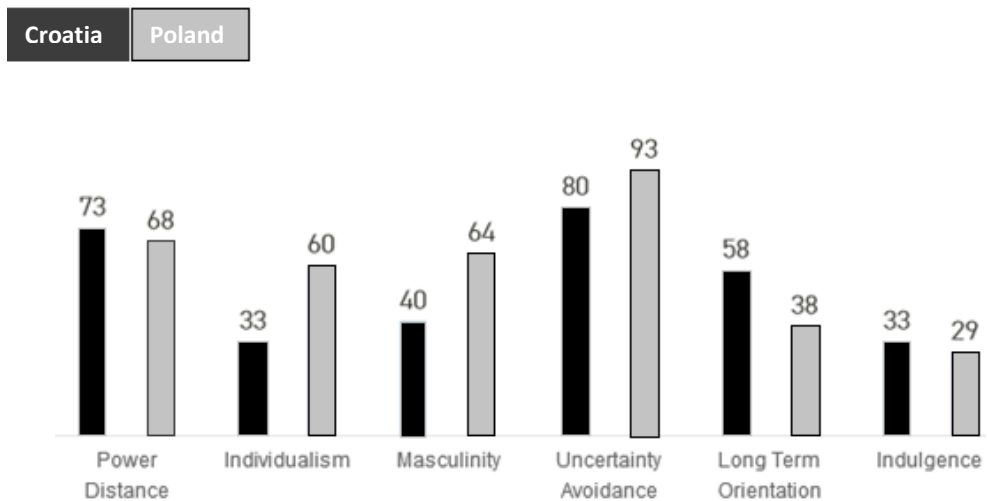
Due to the differences in the citizens' number of Croatia (4 154 213) and Poland (37 972 964), the relative values are particularly valuable in the comparisons of economic conditions of these countries. In 2016-2017 GDP per capita in both countries are at a similar level. However, Croatia's indebtedness measured by percentage share of debt in GDP is much higher than this level in Poland - in Croatia it amounts to 82.9% and in Poland - 54.10%. However, the significant advantage of economic conditions of Croatia over these in Poland is the lower corruption index by 11 percentage points. This positive indicator certainly also affects the significantly higher competitiveness ranking at 74° in Croatia than this at 39° in Poland. Thus the conditions defined in this countries comparison as "doing business" equals in Croatia 51°, while in Poland 27°. In turn, for Polish advantage over Croatian conditions it is the lower by 2 percentage points VAT rate and also lower unemployment rate by 5,3%.

In the face of growing public awareness of the need for sustainability, many countries are getting involved in the *Corporate Social Responsibility* (CSR) activities, the concept of CSR is becoming increasingly popular, both in academic circles through researching its theoretical foundations and empirical consequences, as well as among business practitioners who want to put these theories to use in everyday business practice (Fijałkowska et al. 2018; Zyznarska-Dworczak, 2017, s. 136-149), also in the accounting area. Sustainable development and respect for the environment are seen

as important factors in economic growth. Comparing the indicator presented in the table 2 specifying CO<sup>2</sup> tons per capita it must be stated that in Poland the situation is much worse and the index is 1.5 times higher.

Besides economic factors, in the comparative international accounting analyse it is necessary to take into account other determinants. Hofstede emphasises that individualism, power distance, uncertainty, avoidance, and masculinity are significant cultural value dimensions (Gray, 1998). Furthermore, Gray indicates professionalism, uniformity, conservatism and secrecy as value dimensions at the accounting subculture level. Although Hofstede's cultural dimensions' model has been criticized by several authors, these dimensions have been widely used in accounting research (Klug, 2009). In terms of these dimensions, Croatia and Poland are compared using answer pattern analysis and reporting software from Hofstede Insights (Hofstede Insight 1). Figure 1 presents national features as a factors influencing business and accounting system in Poland and Croatia.

Figure 1: National features as factors influencing business and accounting system in Poland and Croatia



Source: (Hofstede Insight 1).

The analyses, based on the concept of Hofstede, reveals that the biggest difference between these countries is the level of "individualism". Poland, with a score of 60 is an individualist society. This means there is a high preference for a loosely-knit social framework in which individuals are expected to take care of themselves and their immediate families only. Whereas Croatia, with a score of 33 is considered as a collectivistic society, with close long-term commitment to the member 'group'

(Hofstede Insight 2). Furthermore, both countries are distinguished by an exceptionally high level of “uncertainty avoidance”, what it does mean that they rigid codes of belief and behaviour and are intolerant of unorthodox behaviour and ideas. In these cultures, there is an emotional need for rules (Hofstede Insight 2). Nevertheless, the higher level of “long term orientation” is shown by Croatia. On a comparable level, such features as “power distance” and “indulgence”.

The revealed in this paper economic and cultural differences may be the key factors influencing the international differences in accounting field in Poland and Croatia. Understanding of these factors is potentially useful for a number of decision makers, including governments, accounting standards setters, financial markets regulators, international institutions, national and international investors, accountants, auditors and other users of accounting information. Due to such a wide circle of users of financial statements and other forms of information from the accounting system, as well as the importance of this information for business decisions there is a great need to the harmonisation of accounting.

### **Accounting framework in Poland and Croatia - Comparative analyse including factors determining systems**

The awareness of international accounting differences has led in recent decades to impressive attempts to reduce them, in particular, by the International Accounting Standards Board (IASB), which issues International Financial Reporting Standards (IFRS), and by the European Union (EU), which has issued Directives and Regulations on accounting and financial reporting (Parker, 2008). However, as a result of the interdependence between accounting standards and the country’s institutional setting and firms’ incentives, the economic consequences of changing accounting systems may vary across countries (Soderstrom, 2007). This is the case of the observed countries - Poland and Croatia as well.

This part of paper deals with accounting similarities and differences between the countries. The methodology for comparative analysis includes the collection, processing and analysis of information on:

- Main legal acts on accounting,
- Types and methods for preparation of basic financial statements and
- Financial reporting standards.

#### *Legal acts on accounting*

The theory and practice recognize several approaches for the regulation of accounting issues. Accounting principles and regulation can be a part of companies act, law

on accounting, rules on accounting etc. The differences are usually caused by the orientation of jurisdictions to the civil or common law. As Panetsos (2016) stresses the codification, governmental regulation and public disclosure and enforcement are the main features of the civil law jurisdictions, whereas common law appears to be more adaptive to market practice. Both countries, Poland and Croatia, have civil law jurisdictions. The role of Ministry of Finance in both countries is very significant. Not only is involved in defining rules implemented in the Accounting Act, determining the content of the financial statements, but it has a great oversight role. Main legal acts on accounting are accounting acts and for the regulation of statutory auditing and the related issues both countries use separate auditing acts. Table 3 presents the basic legal acts regulating accountancy profession in Poland and Croatia.

The basic legal act regulating accounting rules which concerns business entities in Poland is the Accounting Act of 29 September 1994 with all amendments, whereas in Croatia it is the Accounting Act of 2015 with the amendments from 2015 and 2016. There is a difference between these two acts in their content. The Polish Accounting Act regulates the basic principles of maintaining accounting books, timing and procedures related to the stocktaking, valuation of assets and liabilities, consolidation procedures, auditing and publishing financial statements and financial statements formats. Specific accounting areas such as financial instruments, consolidation of financial statements, accounting for banks, insurance companies, investment funds and pension funds are additionally regulated by regulations issued by Minister of Finance (Advicero, 2014). Croatian Accounting Act deals also with the majority of abovementioned issues as Polish Act.

However, when it comes to regulation, the main difference between the acts is in the source which prescribes the valuation of assets and liabilities. In Croatia, such issues are regulated by the IFRS or Croatian Financial Reporting Standards which is opposite in Polish case since there are main accounting principles on valuation implemented in the Accounting Act (only for specified entities in IFRS). Since 2002 the Polish Accounting Act has been undergoing significant changes to bring Polish accounting practices closer to the International Financial Reporting Standards (IFRS). However, due to the many changes in the IFRS, differences continue to exist between the Accounting Act and IFRS. In areas unregulated by the Accounting Act or National Accounting Standards, reference may be made to IFRS (Advicero, 2014).

The Accountants Association in Poland (AAP) with its rich accounting history is very important to Polish accounting profession. This institution is in charge for the certification in the accounting field. Whereas in Croatia, there isn't a single accounting institute in charge of accounting profession or related certification. Currently, there are some efforts put in the introduction of certification processes in accounting.



Table 3: Regulation of the accountancy profession in Poland and Croatia

Criteria	Poland	Croatia
Main legal acts of accounting	Polish Accounting Act	Croatian Accounting Act, The rule on annual financial statements' structure and content
IFRS	entities specified in Polish Accounting Act	entities specified in Croatian Accounting Act
The role of Ministry of Finance	The Ministry of Finance play significant oversight role in accounting area. It issue several regulations which cover specific accounting areas such as financial instruments, consolidation, accounting principles for banks, insurance companies, investment funds and pension funds. It also enacts the law and the rule on annual financial statements' structure and content. Member of the Committee of Financial Reporting standards are appointed by Minister of Finance	Ministry of Finance has a great role in accounting field. It enacts the law and the rule on annual financial statements' structure and content. Member of the Committee of financial reporting standards are appointed by Minister of Finance. Ministry of Finance and especially Internal Revenue Service (tax authority) have significant oversight role.
Accounting institution in charge of accounting profession	The Accountants Association In Poland (AAP) - since 1907; - AAP's members - 25,000	There isn't a single accounting institute in charge of accounting profession. There are several accounting non-profit and profit oriented organisations.
Certification in accounting profession	Four-tier certification system of accountants has been developed by the Accountants Association in Poland based on the International Education Standards: Certified Accountant, Chief Accountant, Accounting Specialist, and Accountant based on passing the relevant examinations.	There aren't official certification in accounting profession.
Institution in charge of keeping the register of annual financial statements	National Court Register ( <a href="http://www.krs-online.com.pl/">http://www.krs-online.com.pl/</a> )	FINA – Financial Agency ( <a href="http://www.fina.hr">www.fina.hr</a> )
Main legal act of auditing	Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight	Law on auditing, Act of 1 January 2017, National Gazette 127/17
Number of audit firms	1579 (year 2017)	230 (year 2018)
Regulated financial market	Warsaw Stock Exchange	Zagreb Stock Exchange
Average number of listed companies on regulated financial market	427	150 on average

Source: Own elaboration on The Register of audit firms in Croatia, The Zagreb Stock Exchange's website; IFAC website; PIBR 2017; SKwP SKwP Organizational Structur; PWC 2011, EY 2017, p. 137.

### *Financial statements*

Although principal financial statements are usually defined through the standards of financial reporting not every entity should prepare and disclose the same set of general purpose financial statements. Besides, there are certain differences among the countries between the number of financial statements, their names and especially the contents of such statements. Financial statements are often a subject of harmonization since a certain level of comparison is expected in order to fulfill information needs of wide range of users (especially investors on financial markets). The categorization of entity is usually used for the distinction between the financial statements disclosure obligations.

Three commonly used principal financial statements are balance sheet, income statement and the notes to financial statements. Usually, these statements should prepare the majority of all entities (micro and small entities). As the table 4 and 5 show this is the case in Croatia and Poland. There is a difference between the countries regarding these financial statements prepared by micro and small entities. While Polish micro and small entities prepare only abridged balance sheet and income statement, this isn't an option for Croatian entities of the same categories. However, the possibility that the EU Directive 2013/34/EU offers for the regulators to exclude microentities from the preparation and disclosure the complete content of the financial statements in the case of Croatia is not accepted.

Table 4: Types of financial statements requested for the preparation in Poland

Types of entities	Category of entities		Financial statement
	regardless of financial thresholds	other entities that in the preceding financial year for which financial statements were prepared, met at least two of the following conditions:	
<b>Micro</b>	Entities specified Art. 3.1a. of PAA	<ul style="list-style-type: none"> <li>• balance sheet total: PLN 1,500,000;</li> <li>• net revenue from the sales of merchandise and finished goods: PLN 3,000,000;</li> <li>• average headcount in the financial year: 10 people.</li> </ul>	Due to the appendix no 4 of PAA <ul style="list-style-type: none"> <li>• summary introduction to the financial statements;</li> <li>• abridged balance sheet, consisting of some items only;</li> <li>• abridged income statement, consisting of some items only;</li> <li>• appendix and explanatory notes containing a limited number of disclosures.</li> </ul>

Table 4. Continued

Types of entities	Category of entities		Financial statement
<b>Small</b>	Entities specified Art. 3.1a. of PAA	<ul style="list-style-type: none"> <li>• balance sheet total: PLN 17,000,000;</li> <li>• net revenue from the sales of merchandise and finished goods: PLN 34,000,000;</li> <li>• average headcount in the financial year: 50 people.</li> </ul>	<p>Due to the appendix no 5 of PAA</p> <ul style="list-style-type: none"> <li>• summary introduction to the financial statements;</li> <li>• abridged balance sheet, consisting of some items only;</li> <li>• abridged income statement, consisting of some items only;</li> <li>• appendix and explanatory notes containing a limited number of disclosures.</li> </ul> <p>The balance sheet is much more extensive, and the profit and loss account appears both in the comparative and the calculation variants. Also in the additional information a much larger amount of information should be included.</p>
<b>entities obligated to financial audit</b>	<p>f.e. domestic banks, branches of credit institutions, branches of foreign banks, insurance companies, reinsurance undertakings, main branches and branches of insurance companies, main branches and branches of reinsurance undertakings and branches of foreign investment companies;</p> <p>1a) cooperative savings and credit unions;</p> <p>2) entities operating on the basis of securities trading regulations and provisions on investment funds and management of alternative investment funds and units referred to in art. 2 para. 2b;</p> <p>3) joint-stock companies.</p>	<ul style="list-style-type: none"> <li>• balance sheet total: the equivalent in Polish currency of at least EUR 2,500,000</li> <li>• net revenue revenues from the sale of goods and products and financial operations: the equivalent in the Polish currency of at least EUR 5,000,000;</li> <li>• average headcount in the financial year: 50 people.</li> </ul>	<p>Balance sheet</p> <p>Profit and loss account</p> <p>Statement of changes in equity</p> <p>Cash flow statement</p> <p>Notes</p>

Source: Own elaboration on Polish Accounting Act

In fact, from the financial statements disclosure perspective the Polish Accounting Act recognizes only micro entities, small entities and entities obligated to financial audit (table 4). For the same reason, the Croatian Act makes the differences between micro - small, medium and large entities as well as public interest companies (table 5).

Table 5: Types of financial statements requested for the preparation in Croatia

Types of companies	Category	Financial statement
Micro	If doesn't exceed 2 requirements: - Total assets 2.600.000 HRK - Total income 5.200.000 HRK - Average number of employees: 10	Balance sheet Profit and loss account Notes
Small	If doesn't exceed 2 requirements for micro: - Total assets 30.000.000 HRK - Total income 60.000.000 HRK - Average number of employees: 50	Balance sheet Profit and loss account Notes
Medium	If doesn't exceed 2 requirements for small: - Total assets 150.000.000 HRK - Total income 300.000.000 HRK Average number of employees: 250	Balance sheet Profit and loss account Statement of changes in equity Cash flow statement Notes
Large (+ public interested companies)	If does exceed 2 requirements for medium: - Total assets 150.000.000 HRK - Total income 300.000.000 HRK - Average number of employees: 250 And Public interest companies	Balance sheet Profit and loss account Statement of other comprehensive income Statement of changes in equity Cash flow statement Notes
Special exclusion	A subsidiary whose parent company applies the IFRS, can decide to apply the IFRS for the preparation of its financial statements.	Balance sheet Profit and loss account Statement of other comprehensive income Statement of changes in equity Cash flow statement Notes

Source: The Accounting Act, National Gazette No. 78/15, 134/15, 120/16

It is necessary to stress that in Polish case, financial statements which are subjects of an obligatory financial audit, include also a statement of changes in equity and a cash flow statement, whereas in Croatia these statements should be prepared regardless of audit requirements. Only micro and small entities in Croatia should not prepare these two statements. Further, the statement on other comprehensive income should prepare only those entities that should apply the IFRS.

In Poland IFRS is used as the reporting framework to prepare consolidated financial statements of banks and entities allowed to trade in the regulated markets of EEA

countries. The following entities, in turn, have the possibility of drawing up standards compliant with the IFRS: entities that applied for permission to list on a regulated market in Poland or other EEA country, entities that are part of a group where the parent entity prepares consolidated financial statements for statutory purposes in accordance with IFRS, subsidiary of a foreign entity if this entity compiles financial statements based on IFRS (Advicero, 2014).

Further, entities that prepare consolidated financial statements in Croatia should prepare and disclose balance sheet, profit and loss account, statement of changes in equity, cash flow statement and notes to the financial statements. Small and medium sized groups are excluded from this requirement unless they are public interested entities (The Accounting Act, National Gazette No. 78/15, 134/15, 120/16). Croatian thresholds for the differentiation of the entities are in line with the EU Directive 2013/34/EU.

When comparing methods for the preparation of financial statements it is necessary to bear in mind that this depends on the applied financial reporting standards as much as on accounting act and the related rules. Basically, the rules regarding the methods for the preparation of financial statements are the same in the observed countries (table 6).

Table 6: Methods for the preparation of financial statements.

<b>Financial Statement</b>	<b>Poland</b>	<b>Croatia</b>
Balance sheet	Increasing liquidity	Increasing liquidity
Profit and loss account	function of expense method	function of expense method and nature of expense method
Cash flow statement	Direct and indirect	Direct and indirect
Statement of changes in equity	A reconciliation of the beginning and ending balances in a company's equity during a reporting period	A reconciliation of the beginning and ending balances in a company's equity during a reporting period
Notes	Additional information including an introduction to the financial statement, together with additional information and explanations	Additional and supplemental information prescribed by financial reporting standards and The rule on annual financial statements' structure and content

Source: Own elaboration on Polish and Croatian Accounting Act and on The rule on annual financial statements' structure and content.

Balance sheet is prepared under increasing liquidity which is common for European legislation. Profit and loss account (income statement) is prepared under function of expense method but in Croatia nature of expense method is requested for the formal presentation according to the Rule on annual financial statement's structure and content.

### *Financial Reporting Standards*

Poland and Croatia are subjects to the EU Regulation EC 1606/2002 and the EU Directive 2013/34/EU, which require the application of IFRS as endorsed by the European Commission and they both implemented them in their regulations.

According to the EC 1606/2002 entities governed by the law of a Member State shall prepare their consolidated accounts in conformity with the adopted international accounting standards if, at their balance sheet date, their securities are admitted to trading on a regulated market of any Member State. Further, a Member State, in accordance with the EC 1606/2002, may expand such regulation to permit or require the IFRS for the preparation on the annual accounts of the abovementioned entities as well as on other entities. Both countries have used the option to expand the IFRS application on other entities. For example, as in accordance with the Polish Accounting Act 1994, listed entities and banks are permitted in some cases to use EU-endorsed IFRS for the preparation of their individual financial statements. Subsidiaries have the option to prepare these in accordance with EU-endorsed IFRS if the parent company prepares its financial statements using the same standards. Contrarily, banks and listed entities in Croatia are required to use the EU –endorsed IFRS for individual reporting because the Croatian Accounting Act doesn't make any difference between consolidated and individual reporting in the context of the IFRS application. IFRS for SMEs have not been adopted neither in Poland nor in Croatia.

The key differences between the analyzed accounting systems occur in relation to the national standards. Table 7 juxtaposes basic information on Financial Reporting Standards in Poland and Croatia.

Table 7: General information on Financial Reporting Standards in Poland and Croatia

	<b>Poland</b>	<b>Croatia</b>
Standard setter	Accounting Standards Committee	Committee for Financial Reporting Standards
Number of Standards	11	17
Year of first setting standards	2011	2007
Number of pages	Cca 635	Cca 100
Entry into force	After publication in the Official Journal of the Finance Minister	After publication in National Gazette

Source: Own elaboration on website of Polish Ministry of Finance and and Croatian Financial Reporting Standards, Croatian Law on Accounting, National Gazette.

Polish basic accounting rules are determined in the Polish Accounting Act, and only in case of not covering certain issues by the Act, entities may apply National Accounting Standards issued by the Accounting Standards Committee. In the absence of relevant regulations in National Accounting Standards, International Accounting Standards may be used. Whereas the majority of Croatian accounting principles set

in Croatian Financial Reporting Standards (CFRS) are identical to the IFRS. Maybe this is related to the number of pages of the Standards. Whereas CFRS are not so extensive and count only cca 100 pages, more comprehensive are Polish Accounting Standards with cca 635 pages.

Croatian Financial Reporting Standards were introduced in order to simplify keeping accounting evidence for small and medium sized entities. Now, micro entities, and SMEs are intended to be main users of the CFRS. The CFRS are based on the IFRS but reflect Croatian accounting specifics too. According to the Croatian Accounting Act a subsidiary whose parent company applies the IFRS, can decide to apply the IFRS for the preparation of its financial statements. As for the issuance of national accounting standards, there are national committees established by the Ministry of Finance to prepare and issue such standards. In Poland this is the Polish Accounting Standards Committee which is established according to the Accounting Act. Both sets of standards become effective after their publication in Croatian National Gazette or Polish Official Journal of the Finance Minister.

Poland and Croatia has the same historical background, and they both are still facing many political, structural, social and economic changes. The pace of these changes depends on many factors, including economic and culture differences between the analysed countries. For example, the level of individualism is higher in Poland where strong four-tier certification system in accounting is developed. On the other hand, in Croatia, collectivism level can be recognised because the accounting certification system hasn't been developed yet. This can be explained also through national accounting institutions. Whereas the Accountants Association in Poland counts more than 25000 members and has operated since 1907 it is easier to organise certification process. In Croatia, there are several accounting associations and the process of certification process unification is more difficult. The greater history experience implies reach accounting profession which is also recognised in greater number of pages in national accounting standards. Contrarily, it was easier to adopt international standards for Croatia as a smaller and relatively young country. Croatia has stronger long term orientation according to Hofstede Insight which can be related to the approach of forming Accounting Act and CFRS. Namely, the Accounting Act does not include specific accounting principles. They are rather a part of financial reporting standards and CFRS are based on the IFRS. This is how long-term pragmatic solution is reflected. Contrary, short-term normative orientation can be noted in Poland case. Polish Accounting Act consists of main accounting principles on assets and liabilities' valuation and accounting standards should be applied for the parts unregulated by the Act.

Beside cultural features, economic determinants can be related to the specifics in the observed systems. For instance, Poland with greater population number and absolute amount of GDP naturally has more audit firms and higher average number of listed companies on regulated financial market than Croatia. Despite the differ-

ences, they both strive for the level of development in the West, including adapting its accounting systems via international standards.

## **Conclusion**

All entities interested in business relations between the observed countries could have systematic information on differences between the two accounting systems. That information can be very important, not only for equity owners, but also for creditors, investors, vendors, customers, analytics, scientist whose interests are related to the evaluation of a certain business entity from Poland or Croatia.

A number of determinants of accounting system and accounting standards in the transitional economies of Central and Eastern Europe on the example of Croatia and Poland is compared. As the most important it is indicated: economic growth, education level, the degree of external economic openness, cultural factors, the existence of a capital market, and also accounting standard-setting body and its aspiration to the harmonisation of accounting standards, main legal acts in accounting and acts in auditing, certification in accounting profession, regulated financial market, average number of listed companies on regulated financial market. They indeed influence the similarities and differences between the Croatian and Polish Accounting Standards.

Our research results confirmed small interest in comparative international accounting research based on Croatian and Polish publications in Web of Science' database in the period 1945-2017. Therefore, we recognize this area as a valuable scientific niche. Theory, as well as Polish and Croatian case, indicate that economic and cultural differences are important for accounting systems. There are lot of similiarities between the countries. Among others, financial statements content lay down on similar principles. Both countries have civil law and main accounting issues regulate through accounting acts. Ministry of finance has an inevitable role for accounting system as well. There are also some differences too. Main difference is in assets and liabilities valuation's principles which are a part of Polish Accounting Acts and financial reporting standards. This is not a case in Croatia. There are also certain cultural features that can be interpreted through accounting specifics. As for example, individualism level as cultural determinance can be expressed in the strict certification procedure and four-tear certification levels in Polish accounting.

Finally, beside national specifics it is important to stress that both countries are the EU Member States and this is why EU legislative has a great influence on their accounting systems. The processes of globalization and harmonization contribute to higher equality and comparability which is especially important for foreign investments. As a consequence, comparative accounting is inevitable part of accounting and economy.



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