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ACCOUNTING REGULATIONS IN POLAND

Introduction

Foreign companies operating either through branch offices or Polish registered subsidiaries are required either to maintain full accounting records in compliance with the Polish law, or if allowed to do so (see section below) with the IAS/IFRS and related interpretations as adopted by the European Commission. The requirements are onerous and failure to comply can lead to fines and potentially significant problems with the tax authorities. Although clearly companies can choose to ignore some or all of the regulations which may appear to them to be a nonsense the consequences are very often the diversion of management time to defending "fishing expeditions" by the tax authorities who tend to treat even small errors and omissions as an indication that taxation is being under declared.

Language

The accounting records must be maintained in the Polish office and in the Polish currency. Computer software must produce reports and ledger printouts with headings, descriptions in Polish.

Place of processing

The accounting records must be maintained either in the registered office of the company or branch or with an authorised accounting bureau. These have to be located within Poland. It is possible for the actual accounting software to be located on a server outside of Poland however the source documents and access to printouts and/ or onscreen enquiries must be available at all times either at the registered office or an accounting bureau.

Quality of source documents

The Polish VAT legislation imposes very strict rules as to the content of invoices. Corporation tax and personal income tax law is less demanding however the onus is on the taxpayer to prove to the authorities that there is sufficient documentary proof of a transaction. In particular the tax authorities are very keen on documentary proof of acceptance of transactions by the relevant officials of the company. This in turn means that there should in practice be written resolutions of shareholders and the management board (and supervisory board if there is one) concerning authorisation limits and approval procedures.

Chart of accounts

Each entity is obliged to adopt a formal chart of accounts and accounting policies. This document is more than just a listing of nominal and subsidiary ledger accounts and must include a description of adopted accounting principles (where the law allows a choice) and a description of adopted accounting software. The chart of accounts must be formally approved and implemented and must be in the Polish language. Where accounting records are maintained on computer software there must be a description of all the programs used, a description of processing algorithms, description of security procedures and controls and the date on which new versions of software were introduced. In all cases a description of the physical and software controls over security and integrity of accounting records must be provided.

Nominal ledger account numbering

Although there is no formal requirement to follow a standard account numbering system the tax authorities (as well as accounts staff) feel most comfortable with the traditional numbering system. Most reputable accounting software will allow for alternative account numbering systems which will allow local staff to sort by Polish codes and head office to sort by the parent entity account numbering system.

Management and supervisory board liability

In the past only the chief accountant could be fined for failing to maintain proper books of account. The liability now rests on the management board and supervisory board and is joint and severe.

The fact that accounting records are maintained by an authorized accounting bureau does not in any way limit the liability of management board members.

International Financial Reporting Standards (IFRS)

The financial statements of: issuers of securities admitted to, issuers of securities intending to file for admission to or issuers of securities pending admission to trading on one of the regulated markets of the European Economic Area, must be prepared in accordance with IFRS. Subsidiaries of such entities may adopt IFRS, however a relevant decision must be taken by an approving body. The above mentioned entities must conform to the provisions of the Polish accounting legislation in matters not regulated by IFRS and related interpretations. All other entities must apply Polish accounting legislation and can apply local (Polish) accounting standards if the law does not cover a particular issue. Where there is no Polish accounting standard (to date there are only four standards) an entity may apply IFRS. There is however no obligation to apply standards.

Frequency of processing

The legislation requires that full accounting records are maintained on a current basis. Because all taxes are normally reported monthly (including Corporation tax, which small entities may elect for a quarterly basis) in practice this means that full books of account must be maintained in real time.

Storage of data

Accounting records may be maintained on computers without the need to print out ledgers, however access to reports must be guaranteed at all times and following the year end data has to be transferred onto a permanent storage medium and adequately secured.

In addition it is a requirement of the law that once an entry has been made in the ledgers it can only be corrected by a second entry and cannot be deleted.

Annual Financial Statements

These have to be prepared in statutory format including additional information, audited if required by law, approved by the shareholders and filed with the registration court and the tax office within six months of the year end. Certain companies may apply International Financial Reporting Standards rather than Polish law. Interim tax returns are due within three months of the year end.

Data entry

Accounting data must be recorded in chronological order and in a systematic manner. In practice this means that date must be entered in the correct month which in turn imposes on accounting software the requirement to hold open each month until all the transactions of that month have been posted. The tax authorities will expect all transactions and adjustments concerning a particular year to be posted in that years accounting records.

Annual balance and asset and liability verification

There is an annual requirement for balances with suppliers and customers as well as banks, lenders etc to be confirmed in writing. Stocks of assets are subject to annual stock take and fixed assets should be physically verified every four years (annually if not subject to adequate physical security procedures)

Revaluation of balances

All balances are subject to revaluation at least once a year. This applies particularly to balances denominated in foreign currency and those assets which could have been subject to permanent or temporary diminution in value. It is possible for revaluations to be carried out more often (e.g. monthly). Foreign currency denominated balances should be translated using the buying or selling exchange rates of the leading bank used by the entity.

Accruals basis

Despite popular myth and the laziness of many Polish bookkeepers the Polish accounting legislation imposes a full accruals basis of accounting.

Tax records

As in all jurisdictions there is a growing discrepancy between the accounting and tax treatment of various transactions. This means that additional records have to be maintained to track the tax treatment of various positions. The accounting legislation now requires full accounting for deferred income tax. Particular requirements apply to the format of VAT registers and reports. Many foreign accounting software packages are unable to comply fully with the VAT legislation.

Audit requirement

Joint stock companies, banks are subject to annual statutory audit. All other entities which exceeded two of three limits in the previous accounting period are subject to statutory audit of the current year's financial statements. The limits are turnover of 5 million Euro, balance sheet asset total of 2,5 million Euro and 50 employees.

Financial year end (accounting period)

The practice is that financial years end on 31st December. It is however possible to chose any other date. The first accounting period cannot exceed 18 months. It is possible to change the year end but only in respect of an accounting period which has not yet commenced. Special procedures apply. In such a case the first accounting period cannot be longer than 12 months.

Storage of source documentation and accounting records

Storage has to be ensured for a period of at least five years.

Because of the complexity of tax legislation, the monthly tax reporting requirement (quarterly for very small entities) and the need to provide reliable management data the staffing of accounts departments involves significantly more members of staff than would apply in most other countries. Because of the need to ensure up to date knowledge of accounting and tax law and the need to provide cover for staff holidays and sickness companies often find outsourcing to be a cost effective option. Clients should however be aware that the cost can be significantly more in Poland than elsewhere because of the need to check source documents for compliance with the tax legislation on an on going basis. PKGT Audyt we provide a full accounting and administrative support service for clients. The service is menu driven with the client being able to chose which functions are performed by the clients own staff. We can also undertake periodic reviews of client's own systems to ensure compliance and to suggest possible improvements. We regularly advise clients on how to reconcile Polish legal and tax requirements with the need to provide timely and accurate management information.

The guidelines set out above are for general information purposes only and should not be used without further advice when taking any decision PKGT Audyt does not take any legal responsibility for the consequences of any decisions or actions taken as a result of the information set out above, neither does it take any responsibility for the failure to include any information.

Clients are encouraged to seek appropriate professional advice. We will be pleased to discuss with you the particular application of the changes to your own circumstances. Contact in the first instance should be made with Andrew Kinast by e-mail to akinast@pkgt.pl.

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