

# Recommendations on the preparation of 2022 financial statements published

## I. New recommendations from the Accounting Standards Committee

The Accounting Standards Committee has issued new recommendations to assist entities with the preparation of financial statements. In its recommendations the Committee commented on the relevance of previously issued recommendations. At the same time, the document discusses matters with a material effect on 2022 financial statements and reports on activities, such as: the assumption of going concern in uncertain conditions; inventory counts; simplified valuation of goods and services; inflation - impact on the valuation of assets and liabilities; provisions in uncertain conditions; the situation on the energy market and its effect on the financial statements of energy companies; revenues and costs of extraordinary value or incidental nature; disclosures in uncertain conditions. Entities that do not prepare reports on activities may use the recommendations when preparing additional explanations and notes to the financial statements.

## II. Assumption of going concern in conditions of uncertainty

Entities are required to declare whether their financial statements have been prepared on the assumption of going concern and that there are no circumstances that indicate threats to going concern. When assessing an entity's ability to continue as a going concern in conditions of uncertainty, the Committee recommends applying National Accounting Standard (KSR) No. 14 "Going concern and accounting for non-going concern entities". In addition - as stressed by the Committee - the existing guidelines on the assumption of going concern presented in the Committee's previously issued recommendations ("Financial statements during the COVID-19 pandemic" and "Financial statements and reports on activities during Russia's armed aggression in Ukraine", continue to be relevant.

## III. Inventory counts - current conditions and simplifications

Simplified inventory taking methods, and in particular replacing a physical count with a verification of the value of the items (balance confirmation) by comparing the data in the books of account with the corresponding documents, should only be applied in exceptional situations. Such exceptional situations included, without a doubt, the COVID-19 pandemic. The Committee has stressed (importantly) the need to in each instance justify the use of a simplification by the entity's manager. Replacing, due to the COVID-19 pandemic, a physical count of assets with a balance confirmation should be treated as a permissible and acceptable simplification.

The Accounting Standards Committee has published new recommendations to help entities with the preparation of 2022 financial statements and reports on activities in special conditions of economic uncertainty.



## IV. No physical count of assets inventoried using simplified methods required

In order to ensure that the balance of assets recognized in the books of account and presented in the financial statements (confirmed during the COVID-19 pandemic through balance confirmation rather than a physical count) is accurate, it is recommended (although not formally required) to perform a physical count of selected, particularly misstatement-susceptible assets that are material to the 2022 financial statements. Especially now, in conditions of significant uncertainties that accompany business activities, the Committee recommends to in justified cases perform physical counts outside of timetables in order to verify the actual balance of assets, at a time convenient for the entity.

## V. Simplified valuation of goods and services and the risk of information misstatement

In the face of rising wages, prices of raw materials or energy factors, and the resulting decrease in the profitability of goods and services sold, it is vital that users of financial statements are given information on the impact of rising costs on sales results. In order to obtain credible information on the cost of products, an entity should apply appropriate solutions in, among others, its cost accounting, and incorporate those solutions in its accounting methods (policies). Information obtained from traditional cost accounting may not be sufficient to minimize strong cost pressures. In today's conditions entities need cost accounting that delivers information on how the prices of resources used to manufacture goods or provide services respond to an overall rise in prices. It is very important to have information about resources acquired in advance (committed) and purchased as needed (flexible). The Committee recommends disclosing the simplifications applied in the valuation of goods and services in the financial statements.

## VI. Impact of inflation on valuation in the context of true and fair presentation

One of the key challenges faced by entities preparing their 2022 financial statements is to assess the impact of inflation on the information presented therein, and in particular the information shown in the balance sheet, profit and loss account, the statement of changes in equity or the statement of cash flows. In the Committee's opinion, valuation methods based on present value are better at tackling the problem of realistic valuation of assets and liabilities. They cannot, however, be used to measure every balance sheet item. The Accounting Act does not provide for special valuation methods in inflationary conditions. In the Committee's opinion, it is not currently possible to apply IAS 29 "Financial Reporting in Hyperinflationary Economies". The Committee does, however, draw attention to some methods that should be applied in this case.

## VII. Formation of provisions in uncertain conditions

The Committee recommends performing an in-depth verification of provisions, including accruals, as at the balance sheet date, covering the bases for their initial recognition in accordance with the provisions of KSR No. 6 "Provisions, accruals, contingent liabilities". The Committee has also reiterated that in accordance with the Accounting Act, provisions are not formed for anticipated periodic operating losses, i.e. those that cannot be allocated to specific agreements.





## VIII. Application of discounting to provisions in uncertain conditions

The value of a provision should reflect the most accurate estimate of the amount needed to meet a current liability as at the date of formation or verification of the provision, subject to the risks and uncertainties inherent in the entity's business activities. As a result of using a discount rate, the value of the provision should reflect the present value of the liabilities. The application of discounting in the measurement of provisions usually causes their carrying amount to increase as the liabilities approach their due date. This increase, arising out of the so-called reverse discount, is recognized as a financial cost. The discount rates are determined before taxation. They reflect the current market assessment of the time value of money and the risk inherent in the liability. Discount rates should not be burdened with the risks by which future cash flow estimates have been adjusted.

## IX. Energy market situation and its impact on financial statements

The difficult situation on the fuel market resulted in the passing of a law guaranteeing compensation for specific energy sector entities and those businesses whose activities consist of producing heat, due to the obligation to reduce the average price of heating sold to end users. This compensation is meant to protect the planned revenues of heat producers, and thus to limit the increases in the price of heat for certain users. The compensation is therefore a government subsidy for specific entities in the energy sector. This requires an analysis of the impact of the enacted compensation regulations on the financial statements of the entities covered by these regulations. The recommendation extensively describes selected matters that require consideration, including: recognition of selling price subsidies received by energy companies, impairment of energy company assets or onerous contracts at energy companies.



## X. Disclosures in uncertain conditions

Given the requirement of completeness, the Committee recommends that entities that do not prepare a report on activities include information about events with a material effect on their operations in their financial statements. Due to current economic conditions, such events and circumstances include in particular: increased inflation and interest rates, significant changes in foreign exchange rates, job market situation, sales problems, terminated contracts or supply chain interruptions. The Committee also recommends that entities that do not prepare a report on activities disclose material factors and circumstances that affect their operations. Disclosure of information on factors that are not material is not recommended.



**KRZYSZTOF MAKSYMIK**  
Partner

in Audit Department,  
Polish Certified Auditor  
BDO Warsaw Headquarters  
tel.: +48 22 543 16 00  
Krzysztof.Maksymik@bdo.pl

## XI. Revenue and costs of extraordinary value or incidental nature

In its recommendations the Committee stresses that due to the current uncertainties, many entities may incur costs or generate revenues of extraordinary value or incidental nature, such as: costs (losses) caused by the Russian aggression against Ukraine, including the costs of aid, costs of terminating contracts, e.g. in connection with losses anticipated in the event of contract performance, costs arising out of increases in the price of utilities and key raw materials, as well as extraordinary revenues of entities that handle their distribution, or the costs of significant wage increases, including to offset the effects of inflation, along with the cost of increased taxes and charges. In this context, the Committee stressed that information on revenues or costs of extraordinary (including extraordinarily high) value or incidental nature allows users of financial statements to evaluate the stability of the financial result and obtain a better understanding of the factors that shape that result. Omitting information on such events has a negative effect on the comparability of information in the profit and loss account, as it is very likely that they will not recur in the coming periods.

Niniejszy materiał  
nie stanowi  
wyczerpującej  
informacji podatkowej,  
ani nie stanowi  
opinii podatkowej.  
Przed podjęciem  
jakichkolwiek decyzji  
prosimy o zasięgnięcie  
szczegółowej porady  
podatkowej.

BDO to międzynarodowa sieć niezależnych firm audytorsko – doradczych, których współpraca koordynowana jest z centralnego biura w Brukseli. Początki BDO sięgają 1963 roku. W Polsce BDO działa od 1991 roku. Mamy 5 biur, w: Warszawie, Krakowie, Poznaniu, Wrocławiu, Katowicach.

BDO od lat doceniane jest w prestiżowych Rankingach dotyczących działalności m.in. Działów: Audytu oraz Doradztwa Podatkowego.

Ostatnie wyróżnienia dla firmy dotyczą Rankingów:

Firm i Doradców Podatkowych Dziennika Gazety Prawnej za 2021 rok:

- I miejsce Najlepsza Firma Doradztwa Podatkowego w kategorii firm średnich Rzeczypospolitej i Parkietu za 2021 rok:
- Najbardziej Aktywna Firma na Gieldzie (III miejsce)
- Najlepsza Firma Audytorska (IV miejsce)
- Najlepsza Firma badająca spółki giełdowe (V miejsce)

BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa, ul. Postępu 12, 02–676 Warszawa;  
tel.: +48 22 543 16 00, fax: +48 22 543 16 01, e-mail: office@bdo.pl