

European traditions in accounting

## Cost and Management Accounting in Poland

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### Introduction

Poland is a medium-sized country (an area of 312 thousand sq. kilometres and a population of 38 million) lying in the centre of the European continent, an economically important member of the European Union since 1 May 2004. Owing to its location as well as economic and population potential, Poland has played an important role in East-Central Europe since the Middle Ages.

The evolution of accounting practice in Poland, which started in the 14<sup>th</sup> - 15<sup>th</sup> centuries, and the development of accounting regulation, education and theory since the 19<sup>th</sup> century are closely related to the political situation of the Polish nation over the centuries and the socio-economic transformations which took place in the country. With the exclusion of World War II, five development stages can be identified:

- 1) the period of Old Poland (until the third partition of Polish lands in 1795),
- 2) the period of territorial division and annexation of Poland by Russia, Prussia and Austria (1795-1918),
- 3) the interwar years – creating the foundations of a market economy after the regaining of independence (1918-1939),
- 4) the period of a centrally-planned economy (1945-1989),
- 5) the period of democracy and market economy developed since the early 1990s.

In each of these five periods there were events and processes important for the development of accounting in Poland, but due to the limited size of this paper only major issues relating to the evolution of management accounting for business entities will be addressed.

### Simple forms of bookkeeping as a basis for managing landed estates and manufactories until the 19<sup>th</sup> century

The history of commercial, state and agricultural accounting in Poland dates back to the medieval times, which is evidenced by archival documents, such as single entry books of the city of Cracow from 1300-1400, registers from salt mines in Bochnia (1394-1421) and Wieliczka (1497-1594), a ledger of Gdańsk merchant Jan Pis (1421-1454), and written references to inventories as well as cash and farm produce registers used in large estates in central and southern parts of Poland already in the 15<sup>th</sup> and 16<sup>th</sup> century. Application of such practices was recommended by A. Gostomski in 1588 in the first Polish publication on agricultural economics, entitled *Gospodarstwo (Farm Management)*. Among other preserved materials are books on mercantile double entry bookkeeping, published in German in Gdańsk in the 16<sup>th</sup>-18<sup>th</sup> centuries<sup>1</sup>.

Management accounting in the modern sense has been used in business entities in Poland since the 1990s, i.e. since the restoration of a market-based economic system after half-a-century break, although some accounting tools for management purposes were used on Polish lands in the period of Old Poland. Farm accounting (financial and production records in the form of registers, stock-books and summary statements) was employed in the 17<sup>th</sup> century and during the Partitions as an instrument of controlling and managing manors and latifundiums. Examples of publications include the first

manual of agricultural accounting (six editions) published in 1675 by J. K. Haur in the form of nine *Modelleusze arytmetyczne*, appended to his book *Oeconomica ziemiańska generalna (General agricultural economics)*, a book by J. Hermann (1662) entitled *Ziemiańin albo gospodarz inflandzki (Landed proprietor or the Livonian farmer)*, and instructions in the form of manuscripts (for the years 1666-1671) by a landowner, S. K. Bieniewski. These works, as well as many handbooks on economy (so called *Instruktarze ekonomiczne*) published during the Enlightenment period by representatives of the gentry and landed aristocracy, e.g. by Duchess Anna Jabłonowska (1786) – a handbook *Ustawy dla dóbr moich rządców (Instructions for my land-stewards)*, Duke A.I. Ogiński (1786), A. Tyzenhaus (1777) and T. Sapieha (1782), included descriptions of the duties of administrators responsible for keeping the records and managing the estates. According to M. Turzyński<sup>2</sup>, the term „rząd” („administration”) in use at that time denoted measurement (of the quantity and value), oversight and management of the physical and financial resources to attain the objectives set by the landlord, and provision of information on the performance of the subordinates. It is interesting to note that A. Tyzenhaus, a landed proprietor actively engaged in farming management, introduced in the 1770s the obligation to prepare monthly and annual plans of activity for his estates and to verify them on the basis of book entries, to evaluate the results of farming and the condition of the manor farms.

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In industrial enterprises, mainly textile plants, which started to appear in the Kingdom of Poland in the 1820s, the range and quality of accounting methods and practices was diverse. Some textile manufacturing employed double entry bookkeeping systems (e.g. A. Harrer's company in Sieradz set up in 1823, Moes brothers' factory in Zgierz, K. Scheibler's weaving-mill in Żarki), while other enterprises used simpler bookkeeping systems based on single-entry principle. A fairly sophisticated, for those times, system of keeping score of inventories and costs was applied e.g. in the weaving-mill in Żarki and in I. Poznański's factory in Łódź, i.e. in enterprises where the organizational system and scope of activity (form of company, location of manufacturing plants) made it necessary to replace personal control and supervision by the owner by strict numerical control. This type of record-keeping was mainly used for establishing the state of a factory's assets and results of its operation<sup>3</sup>.

### Cost accounting development before 1990

Cost accounting had been used in enterprises in Poland for several decades, though it was mainly oriented to financial accounting purposes. Already **in the interwar period** (1918-1939) the largest enterprises, e.g. in Warsaw, Łódź, and Starachowice, employed costing methods, which were based on standard costs, and financial reporting in those enterprises was timely and adequate to management needs at that time<sup>4</sup>. Some interwar publications addressed cost accounting issues. Cost categorization and principles of cost calculation were presented by A. Bieniek (1938), the idea of break-even point was explained in articles published in „Czasopismo Księgowych w Polsce” („Journal of Accountants in Poland”), issued in 1921-1939, and such issues as formats and rules for financial statements preparation “to present to the management a true state

of the company's affairs”<sup>5</sup>, analysis of solvency, profitability, sales, costs and expenditures, budgets and their execution were addressed, among others, by J. Aseńko (1934). W. Baliński (1937) wrote about types of operating budgets and rules for their preparation in a way similar to modern publications dealing with this subject.

**In the period of a centrally planned economy in Poland** (1945-1989), accounting, including cost accounting, followed uniform principles prescribed in legal regulations. The aim of accounting practice was to safeguard state-owned property and to provide information about the implementation by a given enterprise of the assigned portion of the national plan. The conditions determining cost accounting practice before the 1990s were: central planning of the economy, domination of fiscal requirements over accounting regulations and the centralized mode of managing enterprises. Cost accounting practice had to follow the rules contained in obligatory charts of accounts (uniform industry-specific, and from 1976 – also standard charts of accounts) which were subject to frequent revisions, as well as decrees and directives issued by central authorities and detailed instructions for particular industries (branch associations). Cost accounting, thus, was practiced, especially before 1983, according to prescribed procedures ensuring uniformity of the types of costs and their different classifications as well as standardization of production inventory valuation and calculation rules. Cost accounting systems used in enterprises, based on full costing principles, supplied data for national statistics, taxes and subsidies, and were – just as the accounting system as a whole – an instrument for exercising control over state-owned enterprises.

Uniform cost accounting principles and procedures were thus seen until the early 1990s as facilitating cost control and accomplishment by enterprises of targets set in national socio-economic plans. However, the lack of

conditions favourable to improving internal organization of enterprises and easiness of achieving high profitability were not conducive to taking active interest in costs and cost accounting by state enterprises. This does not mean that there was no cost reduction or progress. Nevertheless, formal cost planning (budgeting) did not provide a driving force in this respect, because it did not set objectives nor identify ways of their achievement. Budgeting, thus, did not entail taking appropriate actions. Moreover, accounting records and calculations of actual costs were often inaccurate due to defective methods used or their incorrect application, which reduced their usefulness<sup>6</sup>.

Along with changes taking place in Poland's economic policy in the 1980s (greater independence and self-financing of enterprises) there was a growing awareness that cost accounting should be suited to such characteristics of an enterprise as size and type of activity, nature of production, type of organization, and staffing and computational potential. This view was embodied in the Order of the Finance Minister of 1983<sup>7</sup> on the rules of recording, calculation and analysis of the costs of industrial production. It increased flexibility in this area, introduced the principle of including overheads in the period of their incurrence in the cost of products sold, i.e. valuation of finished products at their production cost, and provided for the possibility of using for interim calculation of production costs the solutions typical of direct costing (possibility of valuing mass and big lot production in progress using direct costs or costs of materials). Cost accounting principles set out in the Order (1983) and Standard Charts of Accounts, issued on the basis of the Uniform Chart of Accounts of 1976, constituted the foundation for the development of cost accounting systems comprising two circles of costs.

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The outer circle (cost by nature) was mainly oriented to macroeconomic purposes, and the inner circle provided the framework for the sub-system of cost recording and calculation designed to supply detailed information for enterprise management purposes.

In the period of a centrally-planned economy in Poland vast literature was created in the field of cost accounting and management accounting, although before the 1990s the censorship did not accept the term "management accounting". This literature was the result of research conducted by Polish academic accountants from the 1950s in response to the growing demand for textbooks and manuals explaining the principles of cost accounting set out in changing legal regulations. It should be noted, however, that already in 1948 professor S. Skrzywan, whose academic work, textbooks and professional activity laid foundations for the development of accounting in the post-war period in Poland, argued, that "(...) the main goal of accounting is to provide solid numbers (financial information) relevant to management decision-making", with management being defined as "all factors that perform directing, supervising and controlling functions within the enterprise and beyond, in supervisory bodies". He also claimed that "If (...) accounting is to provide guidelines for the management, it should have the same orientation as this management; it should provide *ex ante* as well as *ex post* calculations"<sup>8</sup>.

From the early 1950s the issues in cost accounting and general theory of accounting were two major thematic groups of academic dissertations written by the faculty of Accounting Departments. Research projects carried out in that period resulted in a number of valuable works in the field of costing and management oriented accounting, published before 1990. The most

important publications include monographs and textbooks by S. Skrzywan, E. Wojciechowski, W. Malc, Z. Fedak, B. Siwoń, W. Nowaczek, P. Tendera, H. Sobis, T. Wierzbiński, B. Binkowski, A. Jaruga, J. Skowroński, K. Sawicki, J. Matuszewicz, E. Burzym, Z. Messner. Academic dissertations and textbooks discussed the rules and conditions for the application of standard costing, the tasks and structure of cost accounting for industrial production and its role in effective management of an enterprise, the principles of measurement, allocation and control of indirect costs, cost budgeting in responsibility centers, the nature and function of direct costing and break-even point, and the rules of cost analysis. In addition, various methods of cost calculation and the principles of selling price and transfer price determination were presented and evaluated. An original model of production factor costing, developed by J. Skowroński, deserves special attention. It combined the features of full costing and marginal costing and placed emphasis on the decision-usefulness of cost accounting<sup>9</sup>.

Cost accounting issues discussed by Polish authors after World War II until the late 1980s were roughly the same as those addressed in the literature of countries with market economies, except for the fact that the macroeconomic framework of the socialist state had to be taken into account (such as the absence of market conditions or expanded social sphere). Many academics were well familiar with cost accounting and management accounting solutions developed in Germany and English-speaking countries. The Accounting Department in Lodz University conducted experimental research, headed by A. Jaruga, into managers' behaviour in response to alternative accounting data, in particular the various indicators of enterprise performance, such as sales, profit, value added, or sales profitability. Also, experimental research investigating the impact of different cost accounting

models on results of decisions was carried out, using a computer-supported interactive management game<sup>10</sup>.

Cost accounting issues were in the period of a centrally-planned economy in Poland increasingly included in teaching programmes of economic studies at higher education schools. Management accounting has been a separate subject taught since the early 1990s (at some universities it has been taught even longer, e.g. at the University of Lodz since 1982). Academic accountants established cooperation with accounting practitioners in the area of designing and implementing standard costing. Numerous academic accountants were authors of a number of projects implementing costing in enterprises.

The evolution of cost accounting in Poland led to the establishment of management accounting as the subject of research and education in our country, which was mainly due to the contribution of Professor Alicja Jaruga (1928-2011), who presented and elaborated various management accounting models and methods and thus laid solid foundations for their application in business practice after 1990 in the new, market conditions.

### **Management accounting since the early 1990s**

The reestablishment of a market economy in Poland after 1989 and subsequent implementation and improvement of its mechanisms have had a great impact on changes in accounting regulation, practice, research and education. Since the early 1990s, therefore, significant changes started to take place in accounting systems of enterprises in Poland, which were mainly due to:

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- revised financial accounting legislation in line with requirements of EU Directives on accounting and International Financial Reporting Standards (IFRS), or directly the rules set out in IFRS (obligatory since 2005 for consolidated statements of publicly traded companies),
- growing competition on the domestic market and the impact of globalisation processes on Poland's economy.

New accounting regulations introduced in 1991<sup>11</sup>, revised in Accounting Act 1994 (amended many times, e.g. in 2000, 2004, 2008)<sup>12</sup>, created – for the first time in the postwar period – the opportunity to develop cost accounting systems in a way appropriate to the particular line of business and conditions in which a given enterprise operates. Business entities are now allowed to use individually developed charts of accounts best suited to their particular information needs, providing that they ensure that financial statements are prepared in conformity with the principles and formats prescribed by legal regulations and make possible preparation of statistical statements. The factors listed above create a pressure not only towards modernization of financial accounting systems, but also for implementation and improvement of cost and management accounting systems in companies. Management accounting in Poland has been evolving since the early 1990s to meet two challenges: economic restructuring and dynamic development of management accounting in the world. Accounting practice of Polish enterprises is being shaped under the influence of two major models: management accounting in the Anglo-American manner, and Controlling according to the German approach.

Development of management accounting systems is a challenge for employees of accounting departments and managers, mainly of large and medium enterprises. Growing interest in man-

agement accounting among Polish accounting and management practitioners is visible, among other things, in:

- growing numbers of postgraduate students on management accounting and controlling courses (e.g. at the University of Lodz since 2002), and increased interest in training courses and conferences organized by various universities and other institutions;
- steadily growing numbers of employees performing management accounting tasks in business; their posts are given various titles such as management accountant, controller, financial controller, financial analyst, expert in analysis and planning;
- descriptions of the application of methods used in management accounting systems implementation in companies in Poland, presented in professional journals, e.g. the monthly journal "Controlling i Rachunkowość Zarządcza" (Controlling and Management Accounting, issued since 1999), and on conferences attended by practising accountants;
- engagement of consulting firms and some academic accountants in modification, designing and implementation of management accounting systems for companies.

Over the past 20 years management accounting has become a subject taught on economic courses in higher education institutions all over the country. Many textbooks and articles addressing management accounting have been published and their number is growing steadily. Research in this field has been expanded and intensified. Its results are published e.g. in „Zeszyty Teoretyczne Rachunkowości” („Theoretical Journal of Accounting”), issued by Accountants Association in Poland (AAP)<sup>13</sup> since 1977, a monthly journal “Rachunkowość” („Accounting”, issued by AAP since 1949), and increasingly, though with some difficulty, are presented in foreign publications and at international conferences.

Research findings suggest that management accounting practice in companies operating in Poland is undergoing evolution involving improvements to currently used methods and techniques and implementations of innovative solutions. Polish business entities mostly apply the methods and techniques of operational management accounting and attach greatest importance to two of management accountants' tasks: cost and expenditure control and performance measurement. Recently, however, enterprises are showing a growing interest in methods of strategic management accounting (ABC/M, BSC and Target Costing). Accounting practitioners, managers and academic accountants are undertaking cooperation to promote innovative solutions in the field of management and accounting, e.g. in 2012 and 2013, at the initiative of prof. I. Sobańska, the Accounting Department of the University of Łódź organized conferences on *Lean accounting as an integral component of lean management*, attended also by practitioners.

The development of the management accounting profession in Poland has been spontaneous, without institutional support, as is the case in Anglo-Saxon countries. So far there was no organization associating management accountants for shaping the development of the new profession. In 2003 the Committee on Management Accounting and Controlling (CMAC), within the Scientific Committee of the Accounting Association in Poland was set up in an attempt to spur progress in management accounting research and practice. In 2012, at the initiative of CMAC, AAP set up the Committee for Development of the Principles of Management Accountants Certification, which undertook work on preparation of the organizational and program framework for certification by AAP of the management accounting profession in Poland.

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The impact of intensifying globalization processes, including, among others, operation in Poland of branches of international corporations, and dissemination of management accounting knowledge in Polish enterprises by academics and new graduates of economic studies, including Finance and Accounting, result in gradual convergence of cost and management accounting methods and procedures with the solutions used in western countries, and in internationalization of management accounting systems used in companies in Poland.

## Footnote

<sup>1</sup> See E. Wojciechowski (1964), *Zarys rozwoju rachunkowości w Dawnej Polsce*, Państwowe Wydawnictwo Naukowe, Warszawa.

<sup>2</sup> M. Turzyński (2011), *Rachunkowość w zarządzaniu majątkami ziemskimi w Polsce w epoce oświecenia*, „Zeszyty Teoretyczne Rachunkowości”, tom 63 (119), Warszawa, p. 217.

<sup>3</sup> J. Gorgolewski (1965), *Księgowość w przedsiębiorstwach włókienniczych w Królestwie Polskim w latach 1820-1870*, „Zeszyty Naukowe Uniwersytetu Łódzkiego”, Seria III, Nauki Ekonomiczne, Zeszyt 11, Rachunkowość, Łódź, pp. 48-67.

<sup>4</sup> A. Jarugowa, J. Skowroński (1994), *O wierny obraz rachunku kosztów*, „Rachunkowość”, No. 4, p.166.

<sup>5</sup> S. Skrzywan (1964), *Wspomnienia*, „Rachunkowość”, No. 7, p. 206.

<sup>6</sup> Z. Fedak (1982), *Rachunek kosztów w służbie programu oszczędnościowego*, „Rachunkowość”, No. 11-12, p. 308.

<sup>7</sup> *Zarządzenie Nr 83 Ministra Finansów z 7.11.1983 r. w sprawie zasad ewidencji, kalkulacji i analizy kosztów przemysłowej*, [in:] *Zasady ewidencji, kalkulacji i analizy kosztów produkcji*

*przemysłowej*, Ministerstwo Finansów, Warszawa, 1983.

<sup>8</sup> S. Skrzywan (1948), *Rachunkowość w przedsiębiorstwie przy gospodarce planowanej. Cele i funkcje*, Gospodarczy Instytut Wydawniczy Sp. z o.o., Warszawa, p. 33.

<sup>9</sup> See A. Jarugowa, J. Skowroński, *Rachunek kosztów w systemie informacyjnym rachunkowości*, PWE, Warszawa, 1st ed. 1975, 3rd ed. 1986.

<sup>10</sup> A. Jarugowa, (1989), *Niektóre kierunki badań naukowych z dziedziny rachunkowości*, „Acta Universitatis Lodziensis. Folia Oeconomica” 88, Wydawnictwo Łódzkie, Łódź, pp. 8-9.

<sup>11</sup> *Rozporządzenie Ministra Finansów z dn. 15 stycznia 1991r. w sprawie zasad prowadzenia rachunkowości*, Dziennik Ustaw 1991, nr 10 i 1992, nr 96.

<sup>12</sup> *Ustawa z 29.09.1994 r. o rachunkowości*, Dz. U. 2009, No. 152, poz. 1223, with later amendments.

<sup>13</sup> Accountants Association in Poland is the oldest and the largest Polish organisation of accounting and financial professionals, which continues the traditions of accountancy bodies operating on the Polish territory since 1907.

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