Selected Aspects of Accounting and Their Impact on Effectiveness of Modern Organizations

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In the late 2000s Poland experienced a downturn after a period of economic spur. Some companies in the capital-intensive industries began to undertake investments in preparation for an economic expansion. The authors have intertwined the investment cycle of three paper producing companies with the accounting information. The aim was to analyze how the investment undertaken are disclosed in the financial statements, how they impact the financial position of the enterprise and what is their effect for investment management of other companies. Our conclusions suggest that when companies apply IAS/IFRS their financial statement are not uniformly transparent in the area of investment management.

INTRODUCTION

While Poland has avoided the crisis of late 2000s, the economic environment for capital-intensive companies is still quite uncertain. Such companies require a recurrent investment in fixed assets in order to maintain a high level of technical and technological investment as well as high level of productivity. The capital for investment can originate from three sources – the retained earnings of the business, the issuance of new capital shares or borrowings from financial institutions. Regardless of whether the owners or financial intermediaries supply the capital, they rely on financial reporting to provide them with data to analyze and take decisions on appropriateness of investment. Therefore, the quality of financial reporting is crucial to correct functioning of the funding cycle for the business. However, the quality of financial reports is directly related to the accounting principles and standards used by the company and their proper implementation.

In Poland, most companies use one of the two possible standards: polish accounting standards based on the Accounting Act from 29 IX 1994 with further changes or International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). Companies which issue stocks or want to issue stock on one of the European Union markets must use IAS and IFRS. Also, if a company is a part of a capital group which uses international standards, it must also use IAS and IFRS. In other cases, the companies can use polish standards.

In this article, we shall analyze the use of various accounting standards on the effectiveness of investment management of capital intensive companies operating in Poland. We shall examine whether the use of different standards can change the perception of the company by its stakeholders and so impact the companies' ability to manage its investments. To do so, the authors will use the consolidated and individual financial statements of three capital-intensive companies operating in paper industry over the period 2008 – 2010.

INVESTMENT MANAGEMENT BASED ON EXAMPLE OF THREE CAPITAL-INTENSIVE POLISH COMPANIES

According to Eurostat data (Eurostat, Real GDP growth rate, table no. [tsieb020]) Polish real GDP over the period 2000-2010 has shown a positive annual figure with a greatest increase noted in years 2006 and 2007 with 6.2 and 6.8% respectively. In terms of purchasing power standard Poland has increased its monetary power from 48 in 2000 to 62 in 2010 (Eurostat, GDP per capita in PPS, table no. [tsieb010]). At current market prices per inhabitant, that is an increase from 9200 in 2000 to 15300 in 2010 that is a compound growth about 60% (Eurostat, GDP at market prices, table no. [tec00001]). In 2009 Poland was the only country in Europe with a positive growth rate, a so-called “green island” on a map of red Europe. According to publication of the National Bank of Poland (National Bank of Poland, December 2009), a low (1.7%) GDP increase in 2009 was due to economic hardships at trade partner countries and unstable global economic environment.

During the period 2000 to 2010, gross value added of business activities and financial services generally increased while decreased in 2002 to 2003, 2003 to 2004, 2008 to 2009 and 2009 to 2010 (Eurostat, Gross value added- Business activities and financial services, table no.[tec00007]). For industry (excluding energy), which is a subject of this work, gross value added amounted to 24.6% in 2010 while over the period 2000 – 2010 it experienced a little variation (Eurostat, Gross value added- Business activities and financial services, table no.[tec00004]).

Exports and imports both grew over the 2000-2010 period. In 2000 exports were over €50373 million and by 2010 they accounted for almost €147005 million (Eurostat, Goods and services, imports and exports, table no. [tec00110]). Similarly, imports grew from over €62300 million to over €150628 million, in the same period (Eurostat, Goods and services, imports and exports, table no. [tec00110]). This resulted in openness to trade increasing gradually.

Finally, reference interest rate data quoted daily by the National Bank of Poland (National Bank of Poland) shows that since August of 2000 it has decreased steadily from a high of 19% to a low of 3.5% as of January 2010. Given the economic environment it is unlikely for the interest rates to be drastically increased soon.

Given this for the analysis, we have selected three companies whose financial statements are prepared in International Accounting Standards and International Financial Reporting Standards. There are: Fabryki Mebli Forte S.A., Kompap S.A., Modni Świecie S.A.

Fabryki Mebli Forte S.A. was established in 1993 in Ostrów Mazowiecki. In 1994, the shareholders’ meeting decided to change the legal form to a joint stock company. The company’s core business is the production of furniture as well as wholesale and retail trade of furniture in Poland and abroad (a significant proportion is dedicated for export). Investment obligations of the company mainly come from expenditure on fixed assets under construction and purchase of machinery (Table 1).

TABLE 1
INVESTMENT LIABILITIES OF FABRYKI MEBLI FORTE S.A.

	2008	2009	2010
Investment liabilities	500 000	142 000	2 461 000

Source: Individual financial statements of Fabryki Mebli Forte S.A. for the years 2008 - 2010

Kompap S.A. was launched as the initiative of several people from Łódź in cooperation with the paper manufacturers and Ortex and Orpap companies and Zakłady Celulozowo-Papiernicze in Kwidzyn in 1989. The first listing of the company’s shares took place in 1996. The main customers of its products

– the office supplies – are primarily large companies from the IT industry. Main groups of products are printing products (prints), printer paper, paper rolls used in cash registers, tag paper and paper for fax and mobile printer. In recent years, management has developed a modernization and expansion plan of the machinery fleet (the total amount of investment is planned for 6.4 mln PLN), due to which Kompap S.A. is to obtain increased productivity and significantly improve the quality of production. In subsequent years, the company plans to conduct further acquisitions which consist of extending the scale of operations through both self-development and purchase of other entities in the printing, paper, office or related industries.

The company Mondi Świecie S.A. was established in 2005 as a result of the merger between Mondi Packaging Europe with a Frantschach group which is a strategic investor in the old Plant Pulp and Paper in Świecie. The activities of the company focus on the manufacture of paper for corrugated board and sack paper (Table 2) which allowed the company to become a leader on the Polish market as well as a significant producer on the European market (the share of exports in sales stands at around 70%). It is also the result of the investment plan, which has improved the quality parameters of papers produced and increased its production capacity. The company continues to develop the technological production line (in 2010 on research and development in this area the company has spent 113.7 mln PLN).

TABLE 2
PRODUCTION VOLUME OF THE MAJOR PRODUCT GROUPS (IN THOUSANDS OF TONNES) IN MONDI ŚWIECIE S.A.

Products	2008	2009	2010
Paper for corrugated board production	798	951	1 272
Sack paper production	47	26	41
Total	**845**	**977**	**1 313**

Source: Report on the activities of the company's Mondi Świecie S.A. for the year 2010, p. 10

All three companies are significant market competitors in the Polish market and must invest continuously in order to maintain its leadership positions. Mondi Świecie S.A. as of 2010 has been a market cost leader and has a sixth position in terms of production volume while Fabryki Mebli Forte S.A. and Kompap S.A. present themselves as within top five competitors in the market. As stated above the most sizable investments are primarily in fixed assets that is plant and machinery.

Kompap S.A. (ticket symbol KMP) is present on the Warsaw Stock Exchange since November of 1996 while Mondi Świecie S.A. (MSC) since April of 1997. Fabryka Mebli Forte S.A. (FTE) was the last one from this group of companies to be listed that is in July of 1997. For all these companies raising capital though the financial markets allowed them to expand and pursue growth in international trade primarily through exporting. However, the companies' utilize various ways of raising capital for investment.

Based on its individual financial statements, it is visible that over 2008 – 2010 period Fabryki Mebli Forte S.A. did not issue any additional shares. While generally there were no significant changes in the stockholder's equity category, the only one worth to mention occurred in 2009 as a result of increase in retained earnings by 16 times. This change was due to two events: (1) high positive net income for 2009 of 48 090 000 PLN and (2) shift from use of Polish Accounting Standards to International Accounting Standards and International Financial Reporting Standards in 2009 financial year. In terms of debt, in 2008 the company had 21 061 000 PLN of short term debt, in 2009 it accounted to 20 543 000 PLN and in 2010 it was 45 852 000 PLN. This shows that the company has increased the amount of short term debt which is used both for investing and operating needs and which interest rates are very low as a result of continuous relationship with lending institutions. In terms of long term debt, in 2008 the company has 70 935 000 PLN, in 2009 of 46 469 000 PLN and in 2010 of 26 767 000 PLN –

thus Fabryki Mebli Forte S.A. has been re-paying its long term debt while taking on more short term debt in order to satisfy its liquidity needs. It is important to mention that long term financing is granted to company also on favorable terms (Individual Financial Statements of Fabryki Mebli Forte S.A. for years 2008 – 2010).

For Kompap S.A. based on its individual financial statements over the period 2008 – 2010 one can notice that the company has doubled its equity capital in 2008 and has maintained it over the remainder of the period. However, over the same period the net income has shrunk, primarily as a result of problems with sale of products, goods and materials while a portion of costs remained fixed, which has led to a sizable decrease in retained earnings. In terms of debt, the company did not use borrowing until 2010 when it loaned 4 000 for the purchase of stock of another company (Individual Financial Statements of Kompap S.A. for the years 2008 – 2010).

On the contrary, Mondi Świecie S.A. (Sokołowski, 2011) is a company which also maintains a high financial leverage. The investment in new machinery is visible in 2009 as the amount of fixed assets increased in that year by over 20%. However, in the 2008 – 2010, it did not issue additional capital yet its retained earnings collected in reserve capital for the purposes of future expansion. There are visible signs of rotation of debt, as long term debt increases greatly from 2008 to 2009 (by approximately 170%) but decreases from 2009 to 2010 (by approximately 36%). On the other hand, the short term debt decreases from 2008 to 2009 (about 33%) and increases from 2009 to 2010 (by about 15%). Among the three companies, this one is the most active in the financial markets and most aggressively pursues financing goals.

Analyzing the data contained in the financial statements of selected companies (Table 3), we can see more tangibles owned by Mondi SA in 2009. This is due to a purchase of specialized machinery for paper production. Kompap S.A. increased its holdings in 2008 and 2009, carrying out its plan to expand business. However Fabyki Mebli Forte S.A. implemented its restructuring plan consistently from year to year. It is worth noting that the companies (except Kompap S.A. in 2008) decided not to finance their investments by additional issue of shares or an increase in the value of initial capital. Only in the case of a company Mondi S.A. one can observe recurring substantial liabilities for necessary investments in 2009, but noted this should have a positive impact on its net profit activities in the following year and improve the indicators relevant to the perception of the company on the stock exchange (ROA, ROE). However, worrying may be the results for Kompap S.A. as it recorded the declining profits and a worsening of the basic indicators.

Data from the income statement (Table 4) seems to confirm the positive impact of investments in Mondi S.A. made in 2009. An increase in the quality of products resulted in a significant increase in sales revenue, and hence net profit. In the case of Fabryki Mebli Forte S.A. the income and cost of sales are relatively stable. Company Kompap S.A. reported a significant decrease in the interest in their own products.

TABLE 3
BASIC BALANCE SHEET INFORMATION ON THREE COMPANIES

in 000s of PLN	**MONDI**			**FORTE**			**KOMPAP**		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
balance sheet sum	1 906 172	2 306 136	2 345 765	439 664	444 027	470 137	35 294	31 590	32 983
change		21%	2%		1%	6%		-10%	4%
fixed assets	1 445 308	1 820 461	1 707 746	167 296	156 459	167 535	9 391	12 952	11 832
% in total assets	76%	79%	73%	38%	35%	36%	27%	41%	36%
change		26%	-6%		-6%	7%		38%	-9%
intangible assets	5 938	5 115	2 904	1 689	1 143	844	158	128	98
% in total assets	0,31%	0,22%	0,12%	0,38%	0,26%	0,18%	0,45%	0,41%	0,30%
change		-14%	-43%		-32%	-26%		-19%	-23%
stockholders' equity	333 734	333 734	333 734	23 751	23 751	23 751	5 617	5 617	5 617
net income	143 192	70 177	250 172	2 577	42 170	34 325	3 693	168	-1 274
% in total assets	8%	3%	11%	1%	9%	7%	10%	1%	-4%
change		-51%	256%		1 536%	-19%		-95%	-858%
long-term debt	196 000	674 348	416 366	0	46 469	26 767	0	0	3 556
% in total assets	10%	29%	18%	0%	10%	6%	0%	0%	11%
change		244%	-38%			-42%			
return on assets (ROA)	8%	3%	11%	1%	9%	7%	10%	1%	-4%
return on equity (ROE)	43%	21%	75%	11%	178%	145%	66%	3%	-23%

Source: Individual financial statements of Fabryki Mebli Forte S.A. and Kompap S.A. for the years 2008 – 2010 and Report on the activities of the company's Mondi Świecie S.A. for the year 2010

TABLE 4
BASIC INCOME STATEMENT INFORMATION ON THREE COMPANIES

in 000s of PLN	MONDI			FORTE			KOMPAP		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
sales revenues, net of VAT tax	1 396 579	1 361 589	2 264 654	430 345	461 767	434 430	21 688	18 930	10 976
change		-3%	66%		7%	-6%		-13%	-42%
cost of sales	962 614	1 016 129	1 600 568	312 272	286 209	287 419	17 611	16 226	9 616
change		6%	58%		-8%	0%		-8%	-41%
net income	143 192	70 177	250 172	2 577	42 170	34 325	3 693	168	-1 274
change		-51%	256%		1 536%	-19%		-95%	-858%

Source: Individual financial statements of Fabryki Mebli Forte S.A. and Kompap S.A. for the years 2008 – 2010 and report on the activities of the company's Mondi Świecie S.A. for the year 2010

Managers should choose the method to use in such a way not only to reflect its true and fair value but also to provide proper incentives for asset and liabilities management. There are three methods provided by the managerial accounting literature for decision-taking in investment management. These are:

1. return on investment computed by: earnings from operations / average annual operating assets,

2. residual income computed by: minimum required return on investment * average annual operating assets,
3. economic value added: earnings from operations – weighted average cost of capital * invested capital.

It is important to note all three of these measures are used to take decisions while they may lead to different outcomes. Return on investment and economic value added are short term measures, while residual income has a medium term perspective. The former one is not related to company's goal of value maximization while the two latter ones are.

ACCOUNTING ASPECTS OF MANAGING INVESTMENTS IN PRODUCTION COMPANIES

At present, all three companies use International Accounting Standards and International Financial Reporting Standards. Fabryki Mebli Forte S.A. introduced the international standards in to 2009, while previously it has used the Polish system. Kompap S.A. and Mondi Świecie S.A. are a part of national groups and also use the IAS and IFRS.

The choice of an accounting policies and standards to be applied to accounting data has a two-fold effect. On one hand it affects how the data are presented in the financial statements which impacts the image the financial community has of the company and so its stock price and future potential of raising capital. On the other hand, the data has an effect on the information managers have about the efficiency of its management decisions and it provides a direction for the future decision-taking.

In the past professional studies have been conducted on the relationship between American accounting system known as US Generally Accepted Accounting Policies and the investment management. For example, according to pioneers of this literature Edwards and Bell (1961) special conditions must be met in order to company's book value be equal to company's fair market value (Dutta, Reichelstein, 2005). That is further supported by the financial markets efficiency theory which states that in most situations company's fair market value is higher than its book value. As this incorporated into common financial knowledge these days, financial analysts take this into account and perceive most markets as not fully efficient. Further, Ohlson and Zhang (1998) identified particular US GAAP principles as efficient if they allow to intrinsic value of the company to be computed based on its income and book value. Moreover, Solomons in his 1965 study for the first time tied in the American accounting principles with performance. In light of the abovementioned data one can notice that it is important for the financial information provided in the reports reflect the correct yet conservative information based on which investing decisions can be made while providing proper incentive for the managers to take proper operating decisions.

At the heart of this issue is a concept of accrual accounting as a general concept common to American, international and European principles alike. Accrual accounting is an accounting standard stating that revenue and costs should be recognized when incurred regardless of the time of cash flow. This means that net income amount presented derived based on accrual accounting will be different than that based on cash accounting. While among the accounting standards accrual accounting is quite similarly understood, the methods for valuation of fixed assets are quite different and may have a significant impact on financial statements valuation of balance sheet assets. The basic valuation principles are:

1. Historical cost principle is used when an item is for the first time put on the book. According to this principle assets are recognized at the acquisition date that is a value equal to the amount paid or the fair value of assets transferred. Liabilities are measured at a value equal to the proceeds received in exchange for a commitment or a value equal to the amount of cash expected to be paid to settle the obligations.

Next three principles are used to bring the value of assets to its market value.

2. Replacement or current cost principle recognizes a value that would be payable in case of purchasing the same or equivalent component at the present moment and liabilities are valued at non discounted value that would be required at the moment to settle the obligations.
3. Net realizable value principle shows assets at cash that can be obtained at the moment from the disposal of the asset in the normal transaction and liabilities are valued at a discounted amount of cash used to repay anticipated commitments.
4. Discounted cash flows principle uses the concept of time value of money. Assets are valued at discounted present value of future net cash flows and liabilities disclosed in the discounted present value of future anticipated cash expenses to be paid to settle obligations.

Depending on the valuation method used the value of financial assets might vary. The historical cost is considered to be "objective and reproducible and […] conservative" (Diewert, 2005). It is based on assets useful life and terminal sale value and it is also used for depreciation purposes. It is also the most conservative principle as it may at times depart greatly from the current or market value. Therefore, to make the picture of company more realistic other principles are used to bring the value to market. Depending which one is used it can greatly impact asset valuation. Discounted cash flows provide higher value than others when the assets or liabilities have high potential for generating income. On the contrary, replacement cost principle will provide higher value in case of unique and antique assets.

All three companies utilize International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) in preparation of their financial statement. In regards to property, plant and equipment, that is fixed assets, they particularly use IAS no. 16 so value purchased or otherwise obtained fixed assets in the accounting books for the first time applying the historical cost principle. Also, with the cost are included any expenses incurred in order to make the property, plant and/or equipment operationable (Deloitte). This standard accepts to methods for accounting for the value of fixed assets: (a) the cost model and (b) the revaluation model. The former prescribes for presenting the assets at historical cost less accumulated depreciation while the latter states that the property, plant and equipment should be examined at regular intervals for loss of value. The three companies analyzed here utilize both methods in that they not only show fixed assets net of accumulated depreciation in the financial statements but also annually examine the assets for any significant loss of value. This allows them to show assets at current cost although without following that principle directly.

While information themselves are available to potential and current stakeholders they are not presented in a compact way. The value of property, plant and equipment is shown directly on the balance sheet even though the information on deprecation accounted for are disclosed only in the notes to financial statements. Moreover, if an increase in value occurs as a result of re-valuation of the asset "an increase [..] should be credited to other comprehensive income and accumulated in equity under the heading "revaluation surplus" unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in which case it should be recognised as income" (Deloitte). In case of a decrease, it "should be recognised as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset" (Deloitte). These amounts can therefore be difficult to see and interpret without a precise knowledge of these accounting principles.

Long-term debt information can also be difficult to interpret within the financial statements. International Accounting Standards number 32 and 39 are primarily applicable to accounting for financial obligations. IAS number 39 defines a financial obligation and states that it should be initially recognized at fair value deducting any transaction costs (Deloitte). After initial placement into accounting books, "loans [..] should be measured at amortised cost using the effective interest method (Deloitte). IAS number 32 deals with presentation in financial statements information on financial obligations and related financial costs (Deloitte). It is noteworthy to state that interest data are not provided directly on the balance sheet but rather in the notes to financial statements. Moreover, the disclosure of particular debt conditions are not mandatory to state, thus the company may hide high interest or another unfavorable conditions for at least 2 years, until enough data is available to calculate applicable financial debt ratios.

All three companies disclose the financial obligations at fair value less amortised cost. Moreover, the financing is quite accessible to these companies with loans obtained from large international financial institutions at favorable conditions. Over the period under study, Fabryki Mebli Forte S.A. had four long-term debt arrangements amounting to approximately 100 000 thousand PLN from two banks PKO BP S.A. i ING Bank Śląski S.A. For these loans interest conditions were 1 month London or Warsaw Interbank Overnight Rate (LIBOR or WIBOR). Mondi Świecie S.A. at the end of 2010 valued its long-term debt obligation at over 472 million PLN with a three-year bank guarantee of about 522 million PLN from five banks – among them ABN AMBRO Bank B.V. and Federal Polish Credit Union. However, it does not provide any precise information on credit conditions. Finally, Kompap S.A. does have long-term financial obligations but not in the form of debts or loans and does not provide any additional information about terms of borrowing. Concluding, while the way of presenting data is uniform for all three companies is identical, the degree of disclosure and quite varied. Fabryki Mebli Forte S.A. seems most willing to share information with its current and potential stakeholders and has the highest degree of financial data transparency.

ACCOUNTING EFFECTS FOR INVESMENT MANAGEMENT

Cash flows (Table 5) from operations confirm previous findings concerning the sale of individual companies, except for a significant increase in receivables at Fabryki Mebli Forte S.A. Nonetheless all companies exhibit positive values that suggests no negative effects in the near future. Noticeably, there were substantial investments made during following times: the company Mondi SA in 2008 and 2009, Fabryki Mebli Forte S.A. mainly in 2008 and the company Kompap S.A. in 2008 and 2010. Only company Kompap S.A. decided to issue additional shares in 2008 to finance their project. Mondi SA utilized for this purpose external finance. However Fabryki Mebli Forte S.A. despite the additional loans undertaken for investments has a negative value of cash flows, which may indicate that the revenue from its core business was sufficient to meet its other financial obligations.

TABLE 5
BASIC INFORMATION FROM THE STATEMENT OF CASH FLOWS ON THREE COMPANIES

in 000s of PLN	MONDI			FORTE			KOMPAP		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
cash flows from operations	302 866	202 383	347 390	45 880	56 782	2 780	2 521	2 849	1 314
cash flows from investing	-526 582	-552 658	-111 402	-30 439	-5 219	-13 132	-11 581	-1 328	-11 784
purchase of fixed assets and intangible assets	486 554	554 168	109 427	10 235	5 296	18 548	5 428	1 407	50
cash flows from financinf	202 824	409 859	244 219	-13 982	-29 057	-16 971	14 041	0	4 000
obtained loans and other debt	208 863	444 151	0	29 315	7 608	14 900	0	0	4 000
issue of stock							14 041		

Source: Individual financial statements of Fabryki Mebli Forte S.A. and Kompap S.A. for the years 2008 – 2010 and Report on the activities of the company's Mondi Świecie S.A. for the year 2010

Between the company and the environment there is something known as an asymmetry of information, which means a lack of equal access to information sources. This situation creates the possibility of shaping the message contained in the financial statements of companies. Entities, being aware of the existence of such a possibility, will seek to decipher these messages. The method of achieving this is a financial analysis of the reports. The effectiveness of this analysis hinges largely on the extent and quality of information which in turn depends on solutions adopted in the accounting system of enterprises. Companies are required to disclose the choices made within the scope of the alternatives permitted by law in the documentation presenting the accounting principles (policies) and in the notes to financial statements. This process allows the stakeholders to be aware of the choice made by the companies

According to Valanciene Strumickas: one of the main tools that help to guarantee successful activity of the organization is flexible accounting system suitable for management of chances and timely informing of management (Mykolaitiene, Vecerskiene, Jankauskiene, Valanciene, 2010).

It is worth noting that balance sheet policy in practice means that the companies can use alternative choices to its economic image presented in the financial statements. Therefore, that policy is one element of an overall enterprise policy, understood as “any purposeful venture aiming at development of suitable conditions for business to achieve its objectives” (Kamiński) (which includes among others: to achieve the appropriate amount of financial result, lowering the tax burden, improvement of financial indicators, the positive perception of the company by its customers, increased market value). To these conditions is undoubtedly the company should add the following: the need to maintain an appropriate image align with the enterprise’s goals and to assess economic activity that will trigger the desired behavior of internal and external companies, in particular capital involved stakeholders - shareholders and financial institutions. This means that the accepted principles of accounting can determine whether and how the company will be able to get financing.

The overriding policy that must guide the policy-making in accounting is true and fair view principle which means that the present situation of the company can not be distorted or blurred by the solutions adopted. One must not forget that the users must be able to compare financial statements from different periods. Therefore, corporate data preparers must select and apply specific rules from period to period, and if changes are necessary in the interpretation or presentation of data, explain their causes and consequences for the comparability of data.

The most commonly used policy instruments are those which influence the value of assets and liabilities, revenues and expenses, gains and losses (such as the recognition and valuation).

For example, the choice of method (period), affects the amount of depreciation costs recognized in a given period, a fixed price for the products sold, the value presented in the statement of assets and the size of the financial result (Mykolaitiene, Vecerskiene, Jankauskiene, Valanciene, 2010). Adoption of a long period of depreciation will result in lower costs in the short term, while increasing earnings and the increase in asset values, which shapes a positive image of the company in terms of funding, primarily for lenders.

Interesting study on the impact of valuation on price developments in the stock market was conducted by Gyung Paik. He proved that if the definition of assets should generate economic benefits in the future, thus increasing their value should result in additional benefits in subsequent periods, and therefore an increase in the value of the company's share price, which means also an increased interest in financing the company (Paik , 2009).

The way to prevent the intentional distortion of economic image of the company is the audit of financial statements. Important role in this regard, however, should also be played by an ethical factor. Honesty of preparers and auditors of financial statements is particularly important in the current era, when information became a commodity, and the amount and complexity of the legislation are so large that the goods – in the majesty of the law - can be shaped.

CONCLUSIONS

This article aimed at showing the linage between accounting policies used by particular companies and their image among stakeholders. An example of three paper producing companies in capital intensive industry was used to present methods companies can use to make their true assessment less straightforward. Although all companies use policies acceptable by IAS and IFRS, the data presented is quite difficult to analyze and, at times, lacks complete transparency. Enterprises interested in obtaining financing via financial intermediaries will likely need to provide more information than those just disclosed in the financial statements. This paper supports the necessity for more stringent disclosure rules which furthermore would provide for greater unification of disclosed data.

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