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The Role of Accounting Policy in Management of Polish Hospitals

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Abstract: The Polish accounting Act is not able to create an ideal accounting model for all organizations which carry out diversified activities in various economic conditions. Therefore, managers have the right to choose their own legally accepted accounting principles, in order to present a true and fair view of their financial results in financial statements. However, the freedom to choose accounting principles may also lead to use such tools of accounting policy that have a direct impact on the manner of recognizing revenues and costs and allow the creation of financial performance and other elements of financial statements. The aim of the article is to describe the essence of the accounting policy and analyze the use of selected instruments of material accounting policies in management of Polish hospitals that have impact on financial results and other components included in financial statements. The article presents the results of an empirical survey conducted in selected Polish hospitals in the years 2012 - 2013. The respondents gave information regarding various instruments of accounting policy used in their hospitals and evaluated their use in creating financial performance. The study showed that accounting policy is not the essential tool in the management of the hospitals in Poland. From one point it is good because it means that accounting policy isn’t the tool of any manipulative practices in hospitals. On the other hand the managers don’t use their possibilities and rights to choose the accounting methods to achieve the most desirable financial results. They don’t try to optimize the financial statements of their hospitals using the instruments of accounting policy which don’t violate the balance sheet law.

Keywords: accounting policy, hospitals, accounting rules, balance sheet policy

JEL codes: M41, M48, I18

1 Introduction

The Polish balance sheet law is not able to create an ideal accounting model for all entities which carry out diversified activities in different economic conditions. Therefore, management staff of each entity have the right to choose their own legally accepted accounting principles in order to present a reliable picture of their financial condition in financial statements. On the other hand they have to be careful, not to use this freedom to choose such accounting principles that lead to creating an unreliable image and presenting a false picture of the condition of entity (Stepień, 2012). Sometimes it happens that that accounting policy is the hub of many manipulative practices.

According to the Polish Accounting Act also hospitals have a free hand in choosing the method of valuating and accounting for assets and ongoing economic operations. Those methods are a constituent part of hospital’s accounting policy. If a hospital is given a free hand to choose its accounting methods, it may adjust them in such a way as to achieve the most desirable financial results. Such individually chosen methods are considered correct if they operate within the boundaries set by the provisions of the law. According to the Polish Accounting Act the choice of valuation methods of assets and liabilities depend on their conformity with the balance sheet law, it means whether they are provided for in this Act.

According to IAS 1, accounting policy is defined as a set of rules and methods for estimating conventional values, and procedures regarding the presentation of financial statements (IAS1 -Presentation Of Financial Statements). The principles adopted by hospital as part of its accounting policy depend on the following factors:
1) objectives set by the entity's owner,

2) conformity with the current legal interpretation of the balance sheet law and the adopted standards of accounting (Michalczyk, 2012).

The accounting policy comprises general principles, methods and features of accounting designed for the organization of accounting and financial accountability of the economic entity. Main aspects of accounting policy are organizational aspects, technical aspects and methodical aspects (Adomaitienė, 2004).

The accounting policy is an important element of the entity, and its use is possible thanks to the fact that the legislation does not regulate all possible issues and allow to choose and use permitted by law various alternatives in accounting system. In this context, the accounting policy is often referred to as a balance sheet policy. There is no agreement among authors, whether these terms can be identified and used interchangeably.

In Polish accounting literature the terms "balance sheet policy" and "accounting policy" are commonly used. The problem is that various authors have various opinions regarding their meaning and their relations with each other. According to many opinions accounting policy and balance sheet policy represent the same meaning and scope (Grabowski, 2010). In other opinions balance sheet policy is only a part of accounting policy because it does not cover actions taken to achieve the objectives of the entity and its owners and it doesn't influence the recipients of financial statements. However the professional literature is dominated by the opinions that the two meanings can not represent the same issues because the accounting policy is a broader concept. For instance the issues of accounting policy include not only issues related to the creation process of reporting information, but also the technical elements of accounting, which does not affect the image of the financial statements (Kaczmarek, 2008).

The discussion over the differences between accounting policy and balance policy is also reflected in the geographical definitions. Accounting policy refers to the accounting systems of the Anglo-Saxon tradition, while balance sheet policy is more closely related to German accounting. However the two terms most often are seen as synonymous in everyday accounting practice.

For the purposes of this study, it was assumed that the term of accounting policy will be understood not only as a set of rules, methods, solutions, principles and procedures of accounting adopted by the hospital in the framework of the law, but will also include all activities, arrangements and procedures related to the creation of financial information to achieve the objectives of the entity and its owners.

The article presents the part of results of an empirical study relating to the instruments of accounting policies used in Polish hospitals. The author conducted a survey regarding cost accounting used in hospitals (Kludacz, 2015). One part of this survey included the questions regarding accounting policy. The purpose of this part was to examine the extent to which Polish hospitals use instruments of accounting policy. The empirical study was used to verify the hypothesis that Polish hospitals do not apply any instruments of accounting policy, or apply them in a limited scope.

2 Methodology and Data

The study involved managers of hospitals who responded to questions regarding the use of selected instruments of material accounting policies in shaping the information content of financial statements for the purpose of achieving the objectives of the entity.

The survey was conducted in 2012-2013. In the survey group were mainly public hospitals, however, two questionnaires were sent back by two non-public hospitals. The request for participation in the study was addressed to 100 Polish hospitals from the ranking list "Safe Hospital", which are characterized by high quality of performed health services. The questionnaire was sent by e-mail together with a cover letter. The completed questionnaires were collected mainly by e-mail and via the website with electronic version of questionnaire. Replies were received from 30 Polish hospitals. The
research materials were interpreted and analysed using descriptive statistics. Most of the replies came from the directors, deputy directors or chief accountants.

The first part of the questionnaire regarded the characteristics of the hospital. Respondents answered the questions on the hospital status, the type of the founding body, the level of employment, the number of hospital beds and wards, education and experience of a hospital manager.

As previously mentioned, the hospitals that participated in this study were mainly public hospitals - their representatives has sent back 28 questionnaires. Most of respondents has represented provincial hospitals (about 53%), whose founding body is the marshal office or the provincial government. The remaining group consisted of the hospitals controlled by the counties and city councils. The non-public hospitals were conducted in the form of a civil partnership.

The largest share of surveyed hospitals (40%) is located in medium-sized towns with a population between 51,000 - 150,000. Other hospitals are located in the towns with a population:
under 50,000 - 27%,
between 151,000 -300,000 - 20%,
above 301,000 - 13%.

The majority of surveyed hospitals employed more than 50 physicians (28 units and half of them employed more than 151 physicians), more than 150 nurses (22 units, and 12 hospitals employed more than 300 nurses) and more than 50 non-medical employees (28 units and half of them employed 50-150 people). The two smallest hospitals taking part in the survey employed less than 50 doctors, nurses and non-medical staff.

All hospitals differed from each other mainly in terms of size. The largest group of surveyed hospitals were large units, with more than 19 wards (47%) and 500 beds (53%). The two smallest units involved in the study, had less than 100 beds and less than 6 wards.

Directors of most of the hospitals (67%) have an university degree in economics. On the other hand, 20% of hospitals is managed by directors of medical education. The average period of experience as director of the hospital was just over 11 years.

The degree of computerization of economical part of a hospital was well or very well assessed by all respondents and 87% of them gave the same assessment to the degree of computerization of medical part. On the other hand, the degree of software integration regarding the medical and administrative part of a hospital was not sufficient according to almost half of respondents. It is worth noting that the lack of integration of the administrative and medical software can generate problems with data access.

It can be concluded that the average hospital included in the survey is represented by large public hospital, that has over 500 beds, and over 19 wards, is located in medium-sized town and is managed by the director of economic education with considerable experience.

3 Results and Discussion

The aim of second part of the questionnaire was to analyze the use of selected instruments of accounting policies in Polish hospitals that have impact on financial results and other components included in financial statements. The aim of the instruments of accounting policy which follows also the definition of balance sheet policy is to achieve a certain level of information in the financial statement and obtain expected assessment of this information by the recipients of financial statement and other reports, as well as to induce them to perform the desired behavior. For instance the values presented in the expenses reports of hospital can be used in negotiations with a payer of health care
services (Cygańska, Gierusz, 2007). Such instruments typically involve operations affecting:

1) the financial result – maximising or minimising the reported financial performance,

2) the goodwill of a hospital– adjusting it to the strategic objectives in management process (Michalczyk, 2012),

3) financial liquidity and other financial ratios used in the assessment of the entity.

In the private entities they affect also the tax result. For instance the aim of accounting policies can be to maximize the financial result. In such situation the entity will select such instruments of accounting policies that concern the rules that lead to lower costs in the income statements (Gurau, 2014). The examples of instruments of accounting policy that aim to minimize costs are as follows:

choice of straight-line instead of degressive depreciation method to not increase the costs in the first period of asset use;

decisions regarding the expenses related to renew fixed assets; if they are above the limits of repair and maintenance costs, they will be recognized as a modernization costs and activated in fixed assets;

purchase of items which have an input value less than the limit established by legislation (3500 PLN in Poland.); in such case they won’t be recognized as a component of fixed assets and they will be recognized as expenses;

choice of output costing inventory method first in - first out (FIFO), which can ensure lower costs; it is worth noting that material costs are one of very important indicators determining optimal solution for maximising profit (Walczak, 2014).

use of the right to create prepayments.

The basis for defining the instruments of the accounting policy is the right to choose between various accounting solutions. There are many instruments of accounting policy influencing on financial reports of hospitals that are used to achieve the objectives of entity. Most frequently they are divided into:

material instruments;

time instruments;

formal instruments (Weber, Kufel, 1993).

The second part of the questionnaire was designed to find out which instruments of material accounting policy are used by Polish hospitals and in which scope. Analysis was conducted in two areas, namely taking into account the distribution of instruments of material accounting policy on (Kamiński, 2001):

shifting the economic operations in time e.g. purchases of materials, goods, capital goods, services, or sale of services.

using the right to choose the method of valuation of assets and liabilities, revenues and expenses, gains and losses.

The first kind of instruments may include activities that shift business operations, such as the choice of the moment of the planned purchases of tangible fixed assets, goods and materials, postponement of projects entailing the current costs (e.g. external services), undertaking of the projects based on off-balance sheet financing (e.g. use of rented or leased assets). Most of these solutions can be economically justified (as they may, for instance, help to shifting in time the tax liabilities). The answers of respondents regarding the selected instruments of material accounting policies shifting the economic operations in time are presented in Table 1.
### Table 1 Instruments of Accounting Policies Shifting the Economic Operations in Time

<table>
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<tr>
<th>Instruments</th>
<th>The scale of assessment</th>
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<tr>
<td>shifting in time maintenance and repairs of fixed assets in relation to the balance sheet date</td>
<td>18 4 8 - -</td>
</tr>
<tr>
<td>making modernization of fixed assets instead of maintenance and repairs</td>
<td>14 6 2 6 2</td>
</tr>
<tr>
<td>shifting in time the purchase of low-value items that are charged as expenses</td>
<td>12 6 6 4 2</td>
</tr>
<tr>
<td>shifting in time the sales of services in relation to the balance sheet date</td>
<td>17 8 4 - 1</td>
</tr>
<tr>
<td>shifting in time the procurement of materials and goods</td>
<td>12 5 9 2 2</td>
</tr>
</tbody>
</table>

* the scale of assessment: 1 (definitely not applicable) – 5 (definitely applicable)
Source: Own work

The results show that Polish hospitals do not use properly selected instruments of accounting policy shifting the economic operations in time. In most cases (according to 40 - 60% of respondents), the assessment of the use of these instruments to shape the information contained in the financial statements, in order to achieve specific objectives, was insufficient. The most popular are instruments postponing current costs to future periods, such as:

- making modernization of fixed assets instead of maintenance and repairs - according to 27% of directors the use of this instrument is good or very good;
- shifting in time the purchase of low-value items that are charged as expenses – according to 20% of directors the use of this instrument is good or very good.

The second kind of instruments may include activities that use the right to choose the methods of assessing individual items of the financial statements, such as assets and liabilities, revenues and expenses, gains and losses. Such possibility exists because various kind of assets might be valued at the various costs e.g. at cost of purchase, the cost of acquisition, the net selling price, or the cost of manufacture. The choice of valuation rules depends on whether the valuation is made at the balance sheet date or before it (Czubakowska, 2009).

The rights to choose occur when a certain valuation problem may be solved in at least two different ways. Each hospital specifies the selection of selected principles and methods in its accounting policy. They also have to choose the methods regarding:

1) calculation of depreciation value (Michalczyk, 2007),
2) creating, calculating and releasing provisions,
3) calculating prepayments and accruals.

They have the right to choose the date of cost settlement over time, the right to choose the manner in which to account for the provisions, reserves, interim settlements, amortization and depreciation write-offs and revaluation amounts (Kamiński, 2012).

The answers of respondents regarding the selected instruments of material accounting policies using the freedom of choice with respect to valuation methods, are presented in Table 2.
<table>
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<tr>
<th>Instruments</th>
<th>The scale of assessment</th>
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<tr>
<td>the right to choose the methods of assessing individual items of the financial statements (e.g. intangible assets)</td>
<td>12 4 12 2  -</td>
</tr>
<tr>
<td>the right to choose the depreciation method, including the right to choose a one-time depreciation low value fixed assets</td>
<td>14 4 6 4  2</td>
</tr>
<tr>
<td>The right to choose the type of inventory records and valuation methods of materials expenses</td>
<td>14 6 6 4  -</td>
</tr>
<tr>
<td>Using the right to create write-offs of assets (fixed assets, inventories, receivables)</td>
<td>16 2 8 4  -</td>
</tr>
<tr>
<td>Using the right to create accruals and prepayments and accrued revenues</td>
<td>6 8 6 4  6</td>
</tr>
</tbody>
</table>

* the scale of assessment: 1 (definitely not applicable) – 5 (definitely applicable)
Source: Own work

Again, the results show that most of Polish hospitals do not use instruments of accounting policy using the right to choose the method of valuation of assets and liabilities, revenues and expenses. According to 40-53% of respondents, the assessment of the degree of use of such instruments is insufficient. Unfortunately, only few hospitals are interested in these instruments of material accounting policies, that have the greatest impact on the image of the entity, so the methods of valuation and depreciation that directly affect the value of assets and the financial results presented in the financial statements. The most popular instrument is the right to create prepayments (activate costs) and accruals and deferred revenues. According to 33% of directors, the use of this instrument is good or very good. Prepayments are created when a hospital pays for services in advance but has not yet received them. This might be something like paying for contracted services which has not been performed yet. They are treated as an asset because they are effectively owed to the hospital. Accruals are created when a revenue or expense has not been recorded at the end of the accounting period. Accruals are normally the result of revenue being earned or an expense being incurred before any cash is received or paid (Maxwell, 2007).

4 Conclusions

The main goal of this study was to analyze the use of selected instruments of material accounting policies in Polish hospitals that have impact on financial results and other components included in financial statements. This article presented also an analysis of the meaning and scope the accounting policies and provided explanation of existing opinions regarding differences between "accounting policy" and "balance sheet policy".

The aim of using the instruments of accounting policy is to facilitate the attainment of its economic objectives and influence the recipients of financial statements so as to encourage behaviour conforming to the entity’s expectations (Sawicki, 1998). The study confirmed the hypothesis according to which the hospitals operating in Poland do not apply any instruments of accounting policy to support management processes, or apply them in a limited scope. The information contained in financial statements of various hospitals largely derives from their accounting policy, but the shape of this policy is not determined by the hospital’s objectives.

The results indicate that most of the analysed hospitals apply insufficient instruments of material accounting policy that have the greatest impact on the image of the hospital. In this context it can be concluded that the ability of these hospitals to shape the
information content of financial statements for the purpose of achieving the hospital objectives is considerably limited.

Most of hospitals use the same accounting policy for long period of time, it means the same methods of measurement and presentation of financial statement information. The directors are not interested at all to change their accounting methods at the start of the next accounting period and to use other instruments of accounting policy. Most of them accept the solutions that can be considered as the most popular, least complicated and comply with the law.

Whatever the impact that the instruments of accounting policy have on the performance of hospital presented in financial statement, the necessity of assurance of continuity and consistency in the application of accounting policies has to be taken into consideration. This is necessary for the financial statements to provide true and fair view of financial position, result and changes in financial position (Baran, Stanisz, 2005).

References


IAS 1. Presentation of financial statements. IASB, 2014.


