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## ACCESSIBILITY OF FINANCIAL INFORMATION IN RELATION TO CHANGES IN SIZE OF ENTITIES CAUSED BY THE COVID-19 CRISIS

*The consequences of the Covid-19 pandemic on the quality and scope of financial information prepared by accounting are complex. The scope of the financial statement and the obligation to audit depend on the classification of units based on their size. The required scope is narrower for micro and small entities than it is for larger organizations. The crisis may have influenced the size of entities and by that their classification and the scope of information that they need to disclose. The goal of this article is to verify whether post-pandemic demands for information, assuming it will be the same as pre-pandemic, can be fulfilled. The accessibility of information is connected with the level of security of engaging in business activities. Making changes in the criteria of an entity's inclusion as an SME and in its obligation to audit can be one solution for the problem of insufficient information. The methodology used in this study is analysis of regulations and deductive reasoning. It showed that the effects of the pandemic, particularly the increase in the number of micro and small entities, can limit the accessibility of information. This article contributes to the scientific literature by displaying and justifying the need to verify the classification criteria of businesses and other entities.*

**Keywords:** SMEs, financial information, quality of information, financial statement

**JEL codes:** M14

### Introduction

The COVID-19 pandemic is a global crisis like no other in current times. It has had a negative impact on many sectors of the economy through its effect on global trade, interest rates, financial market liquidity, economic activity. It is visible in financial statements and generally in accounting. The consequences of the Covid-19 pandemic on financial statement reporting are complex and have resulted in challenges for management. This article covers some of the key implications of the Covid-19 pandemic for financial information connected with the classification of organizations, the scope of financial statements and the obligation to audit these statements. This paper is an initial theoretical attempt to investigate whether the Covid-19 crisis, which may influence the size of entities<sup>1</sup>, should result in changes in regulations describing criteria for classifying Small and Medium-Sized enterprises (SMEs).

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<sup>1</sup> Serhan Cevik makes the first empirical attempt in the literature to investigate whether the risk of infectious diseases affects demand for physical cash<sup>1</sup> or not, and shows, using empirical analysis, that the spread of infectious diseases lowers demand for physical cash. Many people have not even considered what he sought to prove, which is that “while the transactional constraints imposed by the coronavirus pandemic could become a catalyst for the use of digital technologies around the world, electronic payment methods may not be universally

There is no certainty as to how owners of SMEs will behave. If they decide that their company will fulfill the criteria of SMEs and want to benefit from that fact, they will be able to use many kinds of simplification. It depends not solely on the scale of activity. There are also some other factors, which are behavioral and should be predicted. However, the paper concentrates on this first factor only.

The European Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises<sup>2</sup> indicates two criteria: staff headcount and financial ceilings. The category of SMEs is made up of units which meet two out of three criteria: employ fewer than 250 persons; and/or have an annual turnover not exceeding 50 million EUR; and/or have an annual balance sheet total not exceeding 43 million EUR. Microenterprises should have fewer than 10 persons and annual turnover and annual balance sheet totals not exceeding two million EUR. For small enterprises it is 50 persons and 10 million EUR.

The second Act that needs to be taken into account is Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC. The goal of this Directive is to harmonize the requirements throughout the European Union. Member States can impose more extensive requirements than those prescribed by the Directive but they can do that only on medium-sized and large undertakings. States are only allowed to demand a limited number of additional disclosures that are explicitly required by national tax legislation and strictly necessary for tax collection.

The Directive introduces the following categories of undertakings and groups<sup>3</sup>:

- micro-undertakings - undertakings which on their balance sheet dates do not exceed the limits of at least two of the following three criteria:
  - total assets of the balance sheet at the end of the financial year: 350 000 EUR;
  - net revenue for the year: 700 000 EUR;
  - average number of employees during the financial year: 10.
- small undertakings - undertakings which on their balance sheet dates do not exceed the limits of at least two of the following three criteria:
  - total assets of the balance sheet at the end of the financial year: 4 000 000 EUR;
  - net revenue for the year: 8 000 000 EUR;
  - average number of employees during the financial year: 50.
- medium-sized undertakings - undertakings which are not micro or small undertakings and which on their balance sheet dates do not exceed the limits of at least two of the following three criteria: (a) the total assets of the balance sheet

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available in every country owing to financial and technological bottlenecks” S. Cevik: Dirty money: Does the risk of infectious disease lower demand for cash? *International Finance First* published: November 6, 2020. <https://doi.org/10.1111/inf.12383>. Retrieved from <https://onlinelibrary.wiley.com/doi/10.1111/inf.12383>. (2020, December 12).

<sup>2</sup> Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises. OJ L 124, 20.05.2003, p. 36-41. Retrieved from <https://eur-lex.europa.eu>. (2020, December 12), Article 2.

<sup>3</sup> Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC. OJ L 182, 29.6.2013, p. 19-76. Retrieved from <https://eur-lex.europa.eu>. (2020, December 12), Article 3.

at the end of the financial year: 20 000 000 EUR; (b) net revenue for the year: 40 000 000 EUR; (c) average number of employees during the financial year: 250.

- large undertakings - undertakings which on their balance sheet dates exceed at least two of the three following criteria:
  - balance sheet total: 20 000 000 EUR;
  - net turnover: 40 000 000 EUR;
  - average number of employees during the financial year: 250.

Member States may define thresholds exceeding those mentioned above, but these should not exceed EUR 6 000 000 for the balance sheet total and EUR 12 000 000 for the net turnover.

The Polish act on accounting defines<sup>4</sup> micro units as i. a. those which in the fiscal year for which the financial report shall be prepared, and in the year preceding the financial year, did not exceed at least two of three criteria:

- total assets of the balance sheet at the end of the financial year: 1 500 000 PLN;
- net revenue from the sale of goods and products for the year: 3 000 000 PLN;
- average number of employees during the financial year: 10.

Small units are, among others,<sup>5</sup> units which in the fiscal year for which the financial report shall be prepared, and in the year preceding the financial year, did not exceed at least two of the following three criteria:

- total assets of the balance sheet at the end of the financial year: 25 500 000 PLN;
- net revenue from the sale of goods and products for the year: 51 000 000 PLN;
- average number of employees during the financial year: 50.

It is important to note that the approval authority must take a decision regarding the preparation of financial statements which, after applying certain simplifications, can lead to reduced requirements. For SMEs there are a few possibilities to simplify and reduce the required information in their financial statements.

Considering the definition of SMEs, there are three criteria according to which an enterprise can be classified as a micro, small or medium sized unit:

1. total assets of the balance sheet at the end of the financial year;
2. net revenue from sales for the year;
3. average number of employees during the financial year.

All these criteria may be affected by COVID-19 – due to the crisis, each can be lower than usual for individual enterprises. As a result, they can be classified (or re-classified) as small or micro, based on existing criteria. Due to this possibility and specified profits, it is likely that the authorities will approve the preparation of financial statements in a shorter form, more often than was approved in the past .

It should be underlined that the decision to adopt the status of micro or small entity is in fact a decision to prepare a simplified financial statement, since the law states that such an entity is one that meets the above-mentioned criteria and for which the authority approving the financial statement has decided to draw it up using the simplifications. It means that, firstly, it is only after the decision has been made that the entity is classified as micro or small unit. Secondly, the decision is essentially about the shape of the financial statements, i. a. the scope of information for their users. As a result of the application of

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<sup>4</sup> Accounting Act 1994. Journal of Laws of 2019 item 351. Retrieved from <http://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19941210591>. (2020, December 12), Article 3.1.a.

<sup>5</sup> Accounting Act 1994. Journal of Laws of 2019 item 351. Retrieved from <http://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19941210591>. (2020, December 12), Article 3.1.c.

the mentioned regulations, an entity's financial statement is limited in terms of the scope of components as well as its details.

According to International Accounting Standards, a complete set of financial statements consists of<sup>6</sup>:

- a statement of financial position as at the end of the period;
- a statement of profit and loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information; and
- a statement of financial position as at the beginning of the preceding comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

The Polish Accounting Act states that the financial statement includes the balance sheet, the profit and loss account and the notes, including an introduction to the financial statements as well as additional information and explanations<sup>7</sup>. The audited financial statement must also include the statement of changes in equity and the cash flow statement<sup>8</sup>. Selected entities should accompany the financial statement with a management report<sup>9</sup>.

Based on the provisions of the Polish Act on Accounting, the micro and small entity never has to prepare two elements of the report<sup>10</sup>: the statement of changes in equity and the cash flow statement, even if its report is audited<sup>11</sup>. The micro entity does not have to prepare additional information, provided that it submits supplementary information to the balance sheet. Nor does it need to provide a management report, provided that it presents information on the acquisition of its own shares in the notes or as supplementary information to the balance sheet<sup>12</sup>. The decision to use the simplified reporting also has consequences for the accounting rules e.g.<sup>13</sup> a micro entity cannot measure its assets and liabilities at fair value and at amortized cost, and both micro and small entities must consider whether to use optional simplifications in the measurement and valuation of assets and liabilities, income and expenses. It must also record its choice in its accounting

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<sup>6</sup> International Accounting Standard 1 Presentation of Financial Statements: IFRS. Retrieved from <https://www.ifrs.org/issued-standards/list-of-standards/ias-1-presentation-of-financial-statements/>. (2020, December 12)

<sup>7</sup> Accounting Act 1994. Journal of Laws of 2019 item 351. Retrieved from <http://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19941210591>. (2020, December 12), Article 45.1.

<sup>8</sup> Accounting Act 1994. Journal of Laws of 2019 item 351. Retrieved from <http://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19941210591>. (2020, December 12), Article 45.3.

<sup>9</sup> Accounting Act 1994. Journal of Laws of 2019 item 351. Retrieved from <http://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19941210591>. (2020, December 12), Article 45.4.

<sup>10</sup> Accounting Act 1994. Journal of Laws of 2019 item 351. Retrieved from <http://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19941210591>. (2020, December 12), Article 48a and 48b.

<sup>11</sup> A. Kaczmarczyk: Micro units as a new category of enterprises in accounting standards [in:] Accounting theory and history, Kamela-Sowińska, A. (Ed.). The Poznań University of Economics and Business, Poznań 2015, p. 66; W. Fałowski: Amendments to the Accounting Act resulting from the implementation of the Directive 2013/34/UE of 26 June 2013 r. Accountants Association in Poland, Warsaw 2016, p. 32.

<sup>12</sup> Accounting Act 1994. Journal of Laws of 2019 item 351. Retrieved from <http://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19941210591>. (2020, December 12), Article 48.3.

<sup>13</sup> Accounting Act 1994. Journal of Laws of 2019 item 351. Retrieved from <http://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19941210591>. (2020, December 12), Article 28a.

policies. The indicated optional simplifications are in the following accounting areas: leasing, production cost, financial instruments and deferred tax.

The financial statements may be divided into those that are subject to mandatory audit and those that are not. Auditing the financial statement is not obligatory for SMEs. The Polish Act on Accounting states that the annual financial statements of joint-stock companies and other entities, which have met at least two of the following three conditions, are audited – provided that they continue operations. These conditions are<sup>14</sup>:

- average number of employees was at least 50 people,
- total assets of the balance sheet as at the end of the financial year constituted the equivalent in Polish currency of at least 2 500 000 EUR,
- net revenue from sales of goods and products and financial operations for the financial year was the equivalent in Polish currency of at least 5 000 000 EUR.

The usefulness of financial statements derives from their relevant and faithful representation but is also dependent on the information needs of their users. The revised Conceptual Framework for Financial Reporting was issued by the International Financial Reporting Standard Foundation in March 2018, and is effective for annual financial statement periods beginning on or after 1 January 2020, with earlier application permitted<sup>15</sup>. The Conceptual Framework defines the following: the objective of a general purpose financial statement; the qualitative characteristics of useful financial information; a description of the reporting entity and its boundary; definitions of an asset, a liability, equity, income and expenses and guidance supporting these definitions; criteria for including assets and liabilities in financial statements (recognition) and guidance on when to remove them (derecognition); measurement bases and guidance on when to use them; concepts and guidance on presentation and disclosure; concepts relating to capital and capital maintenance. Relevance and faithful representation are the fundamental qualitative characteristics of useful financial information and the guiding concepts that apply throughout the revised Conceptual Framework. The IFRS Foundation defines that the users of financial statements are an entity's existing and potential investors, lenders and other creditors. Those users must rely on a financial statement for the majority of the financial information they need. The Polish Act on Accounting, however, lacks this information.

Taking into account the increase in the number of micro and small entities, more information that is less useful because of its narrower scope and lack of audit, will appear on the market. It is obvious that financial statements are still the basic source for macro and micro analysis, and that the macro and micro data may not have the necessary qualitative characteristics. The question is what should be done if this situation arises. Perhaps a reduction of governmental criteria in relation to statistics for describing undertakings is necessary – otherwise, a general acceptance of reduced information and, consequently, an acceptance of an increase in risk regarding business activity can be expected.

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<sup>14</sup> Accounting Act 1994. Journal of Laws of 2019 item 351. Retrieved from <http://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU19941210591>. (2020, December 12), Article 64.1.

<sup>15</sup> International Financial Reporting Standards: Project Summary providing a high-level introduction to the revised Conceptual Framework. Retrieved from <https://www.ifrs.org/news-and-events/2018/03/iasb-completes-revisions-to-its-conceptual-framework>. (2020, December 12).

It is worth mentioning that there is another way to define small and medium entities. On 9 July 2009, the International Accounting Standards Board issued an IFRS for SMEs<sup>16</sup>. The IASB standard does not contain a limit on the size of an entity that may use the IFRS for SMEs. The IFRS for SMEs is the first set of international accounting requirements developed specifically for small and medium-sized entities. This standard has simplifications that reflect the need of users of SME financial statements and cost-benefit considerations. IASB defines SMEs as those that do not have public accountability and who publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies. General purpose financial statements are those that present fairly the financial position, operating results, and cash flows for external capital providers and others.

An entity has public accountability if:

- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market, or
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

The standard does not require any approval by the owners of an SME for it to be able to use the IFRS for SMEs. Listed companies, no matter how small, cannot use the IFRS for SMEs. This area – IFRS regulations of accounting for SMEs – seems to not be affected the Covid-19 crisis.

## Research methodology

The methodology used in this paper is the analysis of regulations and of the consequences of the Covid-19 pandemic on financial statements, as well as basic deduction. It is used to indicate potential changes in the number of SMEs as a factor influencing the scope of financial information. The theoretical analysis indicates that there are three factors which determine which entities can be included in the SME category – all of which can be affected by the COVID-19 pandemic. Furthermore, it indicates that the scope of information in financial statements is narrower for SMEs. The message that emerges from the COVID-19 crisis is that there will be a lack of information, or it will be unverified.

## Results

The number of enterprises is systematically growing in Poland<sup>17</sup>. There is also a slow structural transformation in the enterprise sector, which exhibits a decrease in the share of small and medium-sized enterprises. Small companies account for a significant percent of the Polish enterprise sector. On the other hand, the share of medium-sized companies is less than one percent and the share of large companies is less than half a percent of the Polish enterprise sector. As can be expected, their contribution to GDP creation is quite the opposite. Despite its smaller number, large companies have a significant share in GDP creation, accounting for about 25%.

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<sup>16</sup> Deloitte Touche Tohmatsu Limited: IFRS for SMEs. 9 July 2009. IASB. Retrieved from <https://www.iasplus.com/en/standards/other/ifrs-for-smes#link12>. (2020, December 12).

<sup>17</sup> Polish Agency for Enterprise Development: Small and medium-sized enterprises in Poland, Poland: Polish Agency for Enterprise Development. Retrieved from <https://www.parp.gov.pl/component/publications/publications/?query=m&type=2&series=&publisher=&year=&language=&sort=year-desc&topic=&page=1>. (2020, December 12). p. 5.

It is important for the purpose of this article to show the place in the economy of businesses by size at the moment of the implementation of Directive 2013/34/EU in Poland. The definition of a micro entity based on the criteria of income and employment, adopted in accounting, would be met by about 22 thousand entities, or about 1% of the Polish enterprise sector at that time<sup>18</sup>. A few years later, in 2018, the sector grew by a few percent and, as in previous years, was dominated by micro units, whose number has increased the most in recent years. The share of small, medium and large entities was 2.4%, 0.7% and 0.2% of all enterprises, respectively<sup>19</sup>.

The majority (99.8%) of all enterprises operating in the European Union are micro, small and medium-sized enterprises<sup>20</sup>. This also applies to Poland, although the structure of the SME sector itself is slightly different from the EU as a whole. Poland has a slightly higher share of micro-enterprises than the EU average, which also has twice the share of small companies. The share of medium entities in the SME structure in Poland is similar to the EU average. As far as large enterprises are concerned, their percentage in Poland is at the level of the EU average (0.2%). Most of the jobs in Poland (nearly 69%) and in the EU (nearly 67%) are created in the SME sector, and in Poland, the largest number of jobs are in microenterprises (36%) and the smallest in small companies (14.5%)<sup>21</sup>.

The size of an enterprise is one of the criteria for acquiring different forms of EU support. When assessing which enterprises may benefit from funding programs aimed at promoting SMEs or helping their existence during the COVID-19 crisis, the definitions are crucial. The same can be said in the case of European Commission policy in relation to SMEs. It is focused on five priority areas, covering<sup>22</sup>:

- “the promotion of entrepreneurship and skills;
- the improvement of SMEs' access to markets;
- cutting red tape;
- the improvement of SMEs' growth potential, and;
- strengthening dialogue and consultation with SMEs' stakeholders”.

These selected data already show that the SME sector is important. The small share of medium and large entities means that even small changes in their numbers are felt. Covid-19 may further contribute to the change of this structure – so the question arises: in which direction are the changes going to be? The aim of this article is to highlight one possible directions of change, and its effect in view of the dangers should it become a reality.

A reduction in the number of large and medium-sized entities in the context of disclosure and the audit obligations means an increase in simplified financial statements

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<sup>18</sup> Legislation paper 1045, explanatory memorandum. Retrieved from <http://www.sejm.gov.pl/Sejm8.nsf/druk.xsp?nr=1045>. (2020, December 12).

<sup>19</sup> Statistics Poland. Activity of non-financial enterprises in 2018. Retrieved from <https://stat.gov.pl/obszary-tematyczne/podmioty-gospodarcze-wyniki-finansowe/przedsiębiorstwa-niefinansowe/dzialalnosc-przedsiębiorstw-niefinansowych-w-2018-roku,2,15.html>. (2020, December 12), p. 18.

<sup>20</sup> Polish Agency for Enterprise Development: Sector MSP in Poland and EU. Poland: Polish Agency for Enterprise Development. Retrieved from <https://www.parp.gov.pl/component/publications/publications/?query=msp&type=2&series=&publisher=&year=&language=&sort=year-desc&topic=&page=1>. (2020, December 12), p. 12.

<sup>21</sup> Polish Agency for Enterprise Development: Sector MSP in Poland and EU. Poland: Polish Agency for Enterprise Development. Retrieved from <https://www.parp.gov.pl/component/publications/publications/?query=msp&type=2&series=&publisher=&year=&language=&sort=year-desc&topic=&page=1>. (2020, December 12), p. 6.

<sup>22</sup> Structural business statistics. Retrieved from <https://ec.europa.eu/eurostat/web/structural-business-statistics/small-and-medium-sized-enterprises>. (2020, December 12).

and unaudited financial information being given to the public. Thus, the shift of entities from large and medium-sized, for which the information requirements are greater, to small and micro entities, for which the information requirements are smaller, would lead to a qualitative change of the financial information that is available. Also, there would be less public information, since small and medium-sized units can benefit from simplification to a greater extent than large enterprises. The available information will be less useful because the only entities subject to an audit are those which are the largest – this is due to the fact that the fundamental qualitative characteristics of useful financial information are relevance and faithful representation.

The coronavirus has quickly advanced on a global scale. The uncertainty arising from the current environment may decrease the reliability of information, including estimates and projections. For example, the ongoing concern can be performed up to the date on which the financial statements are issued and relates to at least the first twelve months after the balance sheet date. Many enterprises were affected by the COVID-19 pandemic during 2020, so the effects will be seen in financial statements on this year at the earliest. Significant changes in data and ongoing concerns will occur, too. “There may be changes to the entity’s objectives, strategy, organizational structure, governance arrangements and business model”<sup>23</sup>. Certain areas may present heightened risks of material misstatement: internal control, fraud risk, noncompliance with laws and regulations, accounting estimates<sup>24</sup>.

The International Federation of Accountants gives examples of risks that may be heightened in the current environment, including<sup>25</sup>:

- inappropriate objectives or ineffective execution of strategies,
- a failure to recognize the need for change or lack of expertise to deal with the changes,
- reduction or expansion of the business,
- loss of financing,
- regulatory requirements resulting in increased legal exposure,
- incentives and pressures on management,
- increased risks of fraud.

Covid-19 may arguably result in a decrease of income and cash flow. However, it is possible that “the financial impact of COVID-19 will likely put enormous pressure on corporations’ financial results and present potential challenges for individual employees”<sup>26</sup>. The first one is obvious, while second one may be a factor of fraud.

Taking into account the SME criteria, it seems that it will be possible to observe a reduction in all criteria, of which there is a limited set: assets, turnover, persons employed. A decrease in the number of employees, as well as the reaction of governments, can be seen. The reaction goes in two ways: to secure jobs or to avoid intervention in the job market and control inflation. The relationship between unemployment and inflation is the

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<sup>23</sup> C. Arnold: Summary of Covid-19 Audit Considerations. June 3, 2020. Retrieved from <https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/summary-covid-19-audit-considerations#ac-planning-eorisk-identification-and-assessment>. (2020, December 12).

<sup>24</sup> B. Dohrer & C. Mayes: 4 key COVID-19 audit risks for 2020 year ends. Journal of Accountancy. AICPA. June 5, 2020. Retrieved from <https://www.journalofaccountancy.com>. (2020, December 12).

<sup>25</sup> C. Arnold: Summary of Covid-19 Audit Considerations. June 3, 2020. Retrieved from <https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/summary-covid-19-audit-considerations#ac-planning-eorisk-identification-and-assessment>. (2020, December 12).

<sup>26</sup> Deloitte Touche Tohmatsu Limited: Forensic Focus on COVID-19 (Part 1). Retrieved from <https://www2.deloitte.com/nl/nl/pages/finance/articles/forensic-focus-on-covid-19.html>. (2020, December 12).

following: when unemployment goes down, inflation picks up, and vice versa. Based on criteria that refer to the number of people employed in each enterprise, the main classes are:

- micro enterprises: with less than 10 persons employed;
- small enterprises: with 10-49 persons employed;
- medium-sized enterprises: with 50-249 persons employed;
- large enterprises: with 250 or more persons employed.

Many jobs were lost as a result of the COVID-19 pandemic. It is obviously important how governments react to changes in employment and how they choose to protect employees and businesses. It is difficult to precisely estimate long-term unemployment and to say how inflation will evolve. Generally, predictions are not very optimistic. The International Labor Organization said that worrisome figures show growing signs of a global economic recession and predict that “the virus and the subsequent economic shocks will impact the world of work across three key dimensions:

1. the quantity of jobs (both unemployment and underemployment);
2. the quality of work (e.g., wages and access to social protection); and
3. the effects on specific groups who are more vulnerable to adverse labour market outcomes”<sup>27</sup>.

“ILO estimates indicate a rise in global unemployment of between 5.3 million (“low” scenario) and 24.7 million (“high” scenario) from a base level of 188 million in 2019”<sup>28</sup>. The coronavirus outbreak constitutes a challenge for the European economy and, as the EU declared, it is necessary to protect jobs and workers<sup>29</sup>. Nevertheless, the possibility of a bad scenario must be taken into account, where the employment criteria could soon be downgraded and be fulfilled by more entities, which would reach lower levels in classification of enterprises. In this way, they will be re-classified as small or micro.

A decrease of income and assets is another bad scenario. “The COVID-19 pandemic has created a widespread economic slowdown and has affected different sectors of the economy”<sup>30</sup>. This is, among other things, the result of distortions on the labour market, but, above all, on the economic market. Many enterprises will have lower income only because of the pandemic crisis, affecting all areas of their operations – from supply to sales. There are certain industries that have been drastically reduced, such as tourism, transport, retail and entertainment, and those that are particularly supported to survive. “The implications for financial statements include not only the measurement of assets and liabilities but also disclosure and possibly an entity’s ability to continue as a going

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<sup>27</sup> International Labour Organisation: COVID-19 and the world of work: Impact and policy responses. 18 March 2020., ILO Monitor 1st Edition. Retrieved from <https://ilo.org/global/topics/coronavirus>. (2020, December 12), p. 3.

<sup>28</sup> International Labour Organisation: COVID-19 and the world of work: Impact and policy responses. 18 March 2020., ILO Monitor 1st Edition. Retrieved from <https://ilo.org/global/topics/coronavirus>. (2020, December 12), p. 3.

<sup>29</sup> Jobs and economy during the coronavirus pandemic. Retrieved from [https://ec.europa.eu/info/live-work-travel-eu/coronavirus-response/jobs-and-economy-during-coronavirus-pandemic\\_en#flexibilityundertheeufiscalrules](https://ec.europa.eu/info/live-work-travel-eu/coronavirus-response/jobs-and-economy-during-coronavirus-pandemic_en#flexibilityundertheeufiscalrules). (2020, December 12).

<sup>30</sup> R. Shohini: Economic impact of Covid-19 pandemic July 2020 Roy, PY-2020.07.26. Retrieved from [https://www.researchgate.net/publication/343222400\\_ECONOMIC\\_IMPACT\\_OF\\_COVID-19\\_PANDEMIC](https://www.researchgate.net/publication/343222400_ECONOMIC_IMPACT_OF_COVID-19_PANDEMIC). (2020, December 12), p. 16.

concern”<sup>31</sup>. Six key areas of focus for organizations due to COVID-19 impacts to business were indicated<sup>32</sup>:

- crisis management and response,
- workforce,
- operations and supply chain,
- finance and liquidity,
- tax, trade and regulatory,
- strategy and brand.

It means that COVID-19 has had a significant impact on all parts of business, and, as a result, business activity has slowed. The economic uncertainty even makes planning company liquidation impossible. An entity’s sales and revenue might decline rapidly and lead to bankruptcy. “The implications, including the indirect effects from lower economic activity, should be considered by all entities, not just those in the territories most significantly affected”<sup>33</sup>. Governments have reacted to the impact of COVID-19 and Poland, like other countries, has prepared specific support for businesses, including tax rebates; however, entities must meet certain requirements.

The IASB and other institutions of accountants and auditors are paying attention to the possibility of revenue decline and, at the same time, the possibility of aggressive accounting in this area. The pressure on deliberate income formation may result in overstatement of revenue... “to make up for decreased consumer spending, companies may endeavour to deliberately fabricate revenue to boost bottom lines and show how management was able to persevere in a challenging customer/ business environment”<sup>34</sup>. Businesses may also take actions, e.g. reducing their stated revenue in order to allow them to meet requirements of government support plans, such as having a certain drop in income over time. Considering the possibility of obtaining this support and, at the same time, reducing accounting obligations, companies will most likely go in that direction.

Decrease of assets is obviously the result of a decrease in revenue and employment. However, it is also the result of a fall in the valuation of assets which, during the pandemic crisis, deprived them of the opportunity to obtain the future economic benefit embodied in an asset. Going concern assessments by management will often be influenced by the lack of reliable judgment related to future cash flows. The current circumstances make all assessments in the financial statement more difficult. Companies may be forced to obtain necessary information in new ways which will probably be very unreliable.

The protection of Polish businesses, jobs and consumers includes:

- “Time-constrained legal provisions against takeover to protect Polish companies against buyout by investors from outside of Europe and the OECD;
- budgetary support for local governments;
- facilitations with regards to tender procedures;
- subsidies to the interest on bank credits for companies, granted from the State Treasury;

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<sup>31</sup> PriceWaterhouseCoopers: A look at current financial reporting issues. 20 April 2020. Retrieved from <https://www.pwc.com>. (2020, December 12), p. 2.

<sup>32</sup> PriceWaterhouseCoopers: COVID-19: Impacts to business. Retrieved from <https://www.pwc.com/gx/en/issues/crisis-solutions/covid-19.html>. (2020, December 12).

<sup>33</sup> PriceWaterhouseCoopers: A look at current financial reporting issues. 20 April 2020. Retrieved from <https://www.pwc.com>. (2020, December 12), p. 2.

<sup>34</sup> Deloitte Touche Tohmatsu Limited: Forensic Focus on COVID-19 (Part 1). Retrieved from <https://www2.deloitte.com/nl/nl/pages/finance/articles/forensic-focus-on-covid-19.html>. (2020, December 12).

- credit holidays for those who have lost employment or their main source of income after March 13<sup>th</sup>, 2020;
- support for maintaining jobs by adjusting the work market to the challenges caused by COVID-19;
- tax aids, including the right to write off donations granted to, among others, homes for single mothers, dormitories, shelters for the homeless or social welfare homes<sup>35</sup>.

## Conclusions

As Otmar Issing noted, according to Jean Monnet, Europe always needs a crisis to make progress in integration. He thinks that “the COVID-19 crisis seems to deliver a case to go forward”<sup>36</sup>. It is therefore possible that there will be progress in accounting, too. It should be decided if regulators ought to reduce the criteria in order to ensure safe existence of entities by having efficient and adequate information. The second problem is the scope of disclosure in financial statements and usefulness of information available on the market. The increasing number of SMEs results in less data and information. When it comes to reliability of information, it should be said that the lack of audit causes uncertainty.

If there is still demand for pre-pandemic amounts of information, it will not be fulfilled. This is connected with the level of security of engaging in business activity. Making changes in the criteria of an entity’s inclusion to SMEs, and of its obligation to audit financial statements, can be the solution for this problem. A road map for accounting deriving from this article will be as follows:

Firstly, taking into account that potential changes in the scale of SMEs are a decisive factor for the scope of financial information, as was shown in this paper using the analysis of the regulations, it should be considered whether the current scope is still efficient.

Secondly, assuming that the crisis may decrease the size of entities and increase the number of SMEs, as was previously mentioned, it should be researched whether the classification of units is still correct or whether regulations describing the criteria of classification of SMEs should be changed.

Thirdly, due to the fact that the size of a company determines the obligation of auditing of financial statements, regulators must react to the decreasing number of entities obliged to conduct auditing.

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<sup>35</sup> KPMG: Government and institution measures in response to COVID-19. 30 September 2020. Retrieved from <https://home.kpmg/xx/en/home/insights/2020/04/poland-government-and-institution-measures-in-response-to-covid.html>. (2020, December 12).

<sup>36</sup> O. Issing: The COVID-19 crisis: A Hamilton moment for the European Union? *International Finance* 2020;23:340–347. <https://doi.org/10.1111/inf.12377>. First published: 28 July 2020. Retrieved from <https://onlinelibrary.wiley.com/doi/full/10.1111/inf.12377>, (2020, December 12), p. 340.

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## **Dostęp do informacji finansowej w następstwie zmian wielkości przedsiębiorstw spowodowanych kryzysem COVID-19**

### **Streszczenie**

Konsekwencje pandemii wirusa Covid-19 dla jakości i zakresu informacji finansowej generowanej przez rachunkowość są złożone. Zakres sprawozdania finansowego oraz obowiązek badania zależą od klasyfikacji jednostek dokonywanej ze względu na ich wielkość. Zakres ten jest węższy dla jednostek małych i mikro. Kryzys może wpłynąć na wielkość podmiotów, a tym samym na ich miejsce w tej klasyfikacji i zakres ujawnianych przez nie informacji. Celem jest wstępna weryfikacja tego czy - jeśli po pandemii nadal będzie takie zapotrzebowanie na informacje jak dawniej, zostanie ono zaspokojone. Dostęp do informacji wiąże się z poziomem bezpieczeństwa prowadzenia działalności gospodarczej. Rozwiązaniem problemu braku wystarczającej informacji może być wprowadzenie zmian w kryteriach zaliczania podmiotów do MSP oraz w obowiązku badania sprawozdań finansowych. Zastosowana metodologia to analiza regulacji i wnioskowanie. Pozwoliła ona stwierdzić, że skutki pandemii w postaci rosnącej liczby jednostek mikro i małych mogą ograniczyć dostęp do informacji. Wartością dodaną artykułu jest wskazanie i uzasadnienie potrzeby weryfikacji kryteriów klasyfikacji jednostek.

**Słowa kluczowe:** MSP, informacja finansowa, jakość informacji, sprawozdanie finansowe.

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