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Business combinations under common control in International Financial Reporting Standards – is authoritative accounting guidance needed?

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Abstract

The purpose of the article is to answer the question if a separate standard (IFRS) is needed for business combinations under common control (BCUCC), which are not governed by any IFRS as the moment. In such cases, the approach resulting from IAS 8 should apply to them, which allows the use of national regulations to account for BCUCC. The authoress shortly described the theoretical issues related to the subject and presented the results of empirical research that verified the practical aspects of the problem. The research methodology involves a literature and legal act analysis, content analysis of financial statements, as well as deductive and inductive reasoning. On the basis of the gathered data the authoress concluded that even the existence of necessary regulations in national GAAPs does not guarantee that all the requirements related to the qualitative characteristics of the reported information are met and, as such, the main objectives for which IFRS were developed may not be met. As such, the authoritative guidance proves necessary. Very little research on the subject was published, thus, this paper may provide some additional guidance as to what issues related to BCUCC should receive particular attention.

Keywords: business combinations under common control, methods of accounting for business combinations, disclosure in financial statements, IFRS/IAS, national GAAPs.

Streszczenie

Połączenia jednostek pod wspólną kontrolą w Międzynarodowych Standardach Sprawozdawczości Finansowej – czy niezbędna jest autorytatywna regulacja na ten temat

Celem artykułu jest odpowiedź na pytanie, czy niezbędne jest istnienie międzynarodowego standardu na temat połączeń jednostek pod wspólną kontrolą (PJPWK), które nie są obecnie uregulowane w MSSF. W ich przypadku stosuje się zapisy MSR 8, które pozwalają na używanie krajowych regulacji na potrzeby księgowego rozliczenia PJPWK. Autorka krótko opisała teoretyczne zagadnienia związane z tematem oraz zaprezentowała wyniki badań empirycznych, weryfikujących praktyczne aspekty przedstawionego problemu. Metodologia badania obejmuje analizę literatury i aktów prawnych, analizę treści sprawozdań finansowych oraz metodę dedukcji i indukcji. Na podstawie zebranych danych autorka stwierdziła, że istnienie krajowych regulacji na temat PJPWK nie gwarantuje, że wszystkie wymagania w zakresie jakości informacji sprawozdawczych zostaną spełnione, a w rezultacie główny cel istnienia MSSF może nie zostać osiągnięty. Dlatego też osobny standard jest niezbędny. Ponieważ PJPWK są tematem rzadko opisywanym w literaturze, więc ten w tym artykule wskazane zostały te zagadnienia związane z PJPWK, na które należałoby zwrócić szczególną uwagę.

Słowa kluczowe: połączenia jednostek pod wspólną kontrolą, metody księgowego rozliczenia połączenia, ujawnienia w sprawozdaniu finansowym, MSSF/MSR.

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Introduction

The globalization of financial markets led to the situation where uniform accounting regulations, eliminating the differences between national regulations, and ensuring that similar events are presented in the same way in financial statements, are necessary. In this connection, the main reason behind the existence of IAS and IFRS, as stated in the mission of the IFRS Foundation, „is to bring transparency, accountability and efficiency to financial markets around the world by developing IFRS Standards" (*Who We Are*, 2017).

The transparency is to be brought by enhancing the international comparability and quality of information provided in financial statements. The standards are also to strengthen accountability, which should be achieved by reducing the information gap between the providers of capital and the management of the company. Economic efficiency may be achieved by providing investors with useful and relevant information, which helps them to identify opportunities and risks related to potential investments around the world, and should result in improved capital allocation (*Who We Are*, 2017).

While the existence of IFRS does provide uniform accounting regulations, it should be noted that events not governed by them exist and in such cases special solutions may apply. Among such events are business combinations under common control (BCUCC)[1].

In theory, the approach dictated by IAS 8 should be enough to assure that all economic phenomena should be appropriately presented in a financial statement. However, taking into consideration the number of methods of accounting that are used in practice in the case of BCUCC, some doubts may arise in connection with this issue.

The purpose of this paper is to answer the question if it is necessary for the IASB to develop authoritative accounting guidance for BCUCC. The author hypothesises that the current regulations are not enough to provide the desired level of comparability and transparency of financial statements, nor to achieve the goal intended by the IFRS Foundation. Additionally, the following matters were considered:

1) Does the existence of national GAAPs related to BCUCC ensure the desirable level of the quality of reporting information in connection with the approach allowed by IAS 8?
2) To what extent may such regulations contribute to achieving the goal mentioned above?

In the paper, the authoress presents the current state of research on the subject of BCUCC. The next part of the paper focuses on BCUCC as presented in IFRS and includes a short overview of how selected national GAAP setters solved the problem and what methods are commonly used in practice. It is followed by an analysis of the Polish

[1] International Financial Reporting Standard (IFRS) 3 Business Combinations defines BCUCC as a specific type of a business combination, in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination. It is also stated that the control may not be transitory (IFRS 3, Appendix B, section B1).

accounting regulations on the subject. To verify how the described solutions function in practice, the paper also contains an analysis of empirical data gathered from published financial statements of Polish public companies listed on the Warsaw Stock Exchange (WSE) and NewConnect (an alternative trading market). This part of the research focused on methods of accounting for BCUCC used by these companies in legal mergers that took place in the years 2005–2015. The scope of disclosure about BCUCC was also analysed.

The research methods employed by the authoress involve a literature study, analysis of the legal regulations, content analysis of financial statements, as well as deductive and inductive reasoning.

1. BCUCC as a Research Subject

Despite their complex substance, BCUCC are not often written about. Very few studies focus on the practical and theoretical aspects of accounting for this type of business combination. The literature on the subject is, in general, rather scarce and there is no consensus so far regarding how these types of transactions should be accounted for.

The extent to which the matter is presented in scientific papers differs greatly, depending on the objectives of the authors. For example, BCUCC may be the subject of indirect deliberation, where the main focus remains on the identification of events that may be considered business combinations (see Toborek-Mazur, 2008; Buk, 2009). Also, indirectly, they became a point of comparison between IFRS and Chinese GAAPs (Heng and Noronha, 2011).

A more detailed analysis related to Chinese practices of accounting for BCUCC was conducted by Baker, Biondi, and Zhang. One of their studies focused on business combinations in particular (Baker, Biondi, and Zhang, 2010), stressing how differently BCUCC are treated in Chinese standards and providing evidence how change in the accounting method may affect the financial data. In their earlier research paper, the same authors argued the validity of using the pooling of interest method (merger method) in the case of BCUCC, using Chinese GAAPs as an example (Baker, Biondi, and Zhang, 2008).

More detailed research on the subject was conducted by Biancone (2013), who analysed the theoretical aspects of business combinations under common control and the impact that the introduction of IFRS and IAS in Italy had had on the financial statements of the most important Italian public companies. He also examined the effects that different accounting methods used in the case of BCUCC had on the financial statements of combined companies.

Similar research was conducted by Janowicz (2014), who examined how BCUCC[2] had been accounted for by Polish public companies preparing their financial statements

[2] Only legal mergers were researched.

in accordance with IFRS and IAS. The same author also debated the effects of using the acquisition method on a financial statement in the case of BCUCC (Janowicz, 2013). It should be noted these are the only Polish publications focused on the subject of BCUCC.

Methods of accounting for business combinations were also the subject of a paper written by Fiume, Onesti, Romano, and Taliento (2015), in which they examined the methods commonly used in such cases, trying to answer the question regarding which of them could be considered most suitable to account for BCUCC.

Another piece of research, indirectly connected to these matters, was conducted by Bonacchi, Marra, and Shalev (2015). In their paper, they analysed the relations between the method of accounting used for BCUCC and issuing a public debt after the business combination. The authors found a positive correlation of the event with the use of the purchase method.

In conclusion, most research focused more on the methods of accounting for business combinations under common control and their effects on financial information. The idea of how the lack of a separate standard for BCUCC influences reporting information on this matter has not been examined yet.

2. Accounting for Business Combinations Under Common Control in International Financial Reporting Standards and the IASB approach to the problem

Business combinations under common control have always been excluded from the scope of IAS and IFRS (MSR 22, section 8a, p. 592; IFRS 3, section 2)[3]. As a result, the acquirer in this type of business combination should follow the approach pointed out by International Accounting Standard 8 *Policies, Changes in Accounting Estimates and Error* (IAS 8, section 10). According to this standard, management must use its judgement in order to develop and apply such an accounting policy that will result in providing information that is both relevant and reliable. While making the judgement, management must take into consideration the following sources, in descending order (IAS 8, section 11):

- requirements and guidance provided by other IASB standards and interpretations which deal with similar and related issues,
- the definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses provided by the Conceptual Framework for Financial Reporting.

[3] The appropriate project related to developing a standard for BCUCC is included in the work plan of IASB, so it should be expected that such a standard will be developed at some point. However, the works were started in September 2013 (Project News History, 2013), and have been extended a few times since then. A separate research on the matter is also conducted by EFRAG, however, it initially focused more on consolidated financial statements and has not been finished yet (Business Combinations, 2012).

It is also possible for management to consider other accounting standards developed by other standard-setting bodies that use a similar conceptual framework, accounting literature and accepted industry practices, assuming they do not conflict with the sources mentioned above (IAS 8, section 12).

Applying this concept to BCUCC, the following solutions may be adapted:

- the acquirer will apply IFRS 3 to this business combination by analogy,
- the acquirer will adapt their own approach to the issue, using their professional judgement and the compliance with The Conceptual Framework for Financial Reporting; the use of national GAAPs is allowed, although not obligatory.

Further research conducted by the IASB focused on the methods of accounting used for BCUCC in practice and examined selected national GAAPs that deal with the issue. While no detailed research result was presented, some general observations were published.

As noted by the IASB, both the approaches applied in practice and the national GAAPs analysed provide evidence that entities account for business combinations under common control using the acquisition method, as required by IFRS 3, or the so-called predecessor method is used in compliance with the regulations of IAS 8 (*Agenda Paper 23…*, 2016, p. 2)[4]. Additional research carried by the authoress shows that such regulations differ depending on the country, however, two approaches to the problem may be observed:

- all BCUCC should be accounted for with the use of one method only, for example, in Chinese standards, only the pooling of interest method is allowed (Baker, Biondi, Zhang, 2010, p. 111),
- more than one method may be used in the case of BCUCC; such an approach may be observed in the US GAAP (ASC 805, par. 805-50-05-06) or in Italian regulations (Biancone, 2013, p. 54).

The use of different methods reflects the complex and rather unique nature of these types of business combinations and reflects the substance of each transaction. The main difficulty that the authoress notices here is related to the fact that the predecessor method is, in fact, a term used to describe a group of different methods, one of which is the pooling of interest method. They all possess one common trait – the use of carrying values as the measure basis for identifiable assets and liabilities of the „acquired" entity (*Navigating the Accounting…*, 2011, p. 17). However, the rules according to which they are applied may differ.

According to the data collected by the IASB in response to their discussion paper, the differences apply mostly to the following areas (*Agenda Paper 23B…*, 2016, p. 4):

- carrying values used (recognized by the „acquired" company in its book of accounts vs. recognized by the controlling party),
- the date for which the business combination is accounted (the BCUCC date vs. the assumption that the companies have always been combined),

[4] Similar occurrence was observed by EFRAG (Accounting for Business Combinations…, 2012, p. 9).

- the way in which the difference between consideration paid and „acquired" net assets is presented in the financial statement (merger reserve/deficit vs. additional paid-in capital vs. goodwill/gain[5]).

It is generally assumed that no additional assets and contingent liabilities should be recognized in the process of applying the predecessor accounting method. However, it is possible that the goodwill previously recognized in consolidated financial statements will be transferred to a separate financial statement of the combined entity, assuming the carrying values recognized by the controlling company were used.

Depending on the method used, a different result in carrying amounts of the „acquiring" company will be observed (see Biancone, 2013, pp. 57–58; Baker, Biondi and Zhang, 2010, pp. 111–113). While similar occurrences may have been observed in the past, when the purchase method and the pooling of interests were allowed, the scale of these differences may be much wider now, as more than one method using carrying amounts is used, and for each of them such amounts are calculated differently. It should be noted that limiting the number of accounting methods for business combinations was one of the reason why only one method is now allowed in IFRS 3, in an attempt to increase the comparability of financial statement.

The rules of applying the chosen accounting method are not the only problem related to BCUCC. Without any authoritative regulation, disclosures provided for such a business combination are also subject to management judgement. It seems obvious that the information presented in the financial statement of a combined company should meet the requirements set for qualitative characteristics of useful information (*The Conceptual Framework…*, 2010, chapter 3). However, the idea of what is considered useful and relevant by management may vary, thus the scope of information provided will differ depending on the company.

The following conclusion may be drawn at this point. The lack of detailed guidance for BCUCC in IFRS results in the situation where either IFRS 3 is applied by analogy or a different approach based on management judgement is used. The use of national GAAPs to account for BCUCC is allowed, but is not obligatory under IAS 8 requirements. While the use of national GAAP may, to a certain extent, regulate the issue of BCUCC, it should be noted that such regulations differ, depending on the country, and many methods are used in practice. This, in turn, lowers the comparability of financial statements.

Another issue is related to the scope of disclosure required in such cases. While clearly described in IFRS 3, it may differ significantly when other regulations are used, which may lower the efficiency of financial markets, leading to a situation where irrelevant information is provided or relevant information is omitted. Similarly, the lack of a unified approach to the predecessor method leads to a situation where different rules

[5] Only one respondent provided such a response, however, it is unknown which country they represented (Agenda Paper 23B, 2016, p. 4).

are applied to seemingly similar transactions, resulting in different economic effects of these transactions.

Summarizing, it may be assumed that authoritative national regulations on the subject of BCUCC may be the solution to the problem on the national level only and they may not provide the necessary transparency for global financial markets.

3. The Polish Accounting Act as an Example of National GAAPs

The Accounting Act will be further analysed as an example of national GAAPs in order to see to what extent such regulations may contribute to the goals assumed by IFRS on the national level. According to Polish law, all issues not governed by any IFRS or IAS should be accounted for in accordance with the Accounting Act regulations (The Accounting Act, article 2 (3)). As such, they should be applied to BCUCC as well.

The Polish accounting regulations do not explicitly define business combinations under common control. They do, however, distinguish one particular type of business combination in which control over a company before and after the combination remains in the hands of the same shareholders. In such a situation, the business combination should be accounted for under the purchase method or the pooling of interest method (The Accounting Act, article 44a(3)). There are no legal limitations for the use of either method, thus the decision about which method to be used depends on the management, their priorities, and the goals they want to achieve.

It should be noted that the regulations providing for BCUCC came into force at the beginning of 2009. Before that, no clear distinction for these types of business combinations was made, and the Accounting Act regulations focused on distinguishing cases in which the acquirer could not be identified or where the combining parties were subsidiaries of the same parent company.

As mentioned before, IAS 8 does not require the use of national regulations. At the same time, it is also possible for a company to „create" an individual approach to the problem, keeping to the rules set by the standard. However, this approach goes against the regulation of the Accounting Act. Taking into consideration that the application of national GAAPs falls into the hierarchy set by IAS 8, the authoress is of the opinion that all BCUCC should rather be accounted for under the regulations of the Accounting Act. This view is also shared by the Polish Accounting Standard Committee (*The Opinion of...*, 2012, p. 1).

Summarizing, the Accounting Act provides basic guidance for BCUCC that should be applied by Polish companies in areas not covered by IFRS and IAS, which complies with the requirements of IAS 8. The Polish regulations determine what methods of accounting may be used and what disclosure is required for each of them.

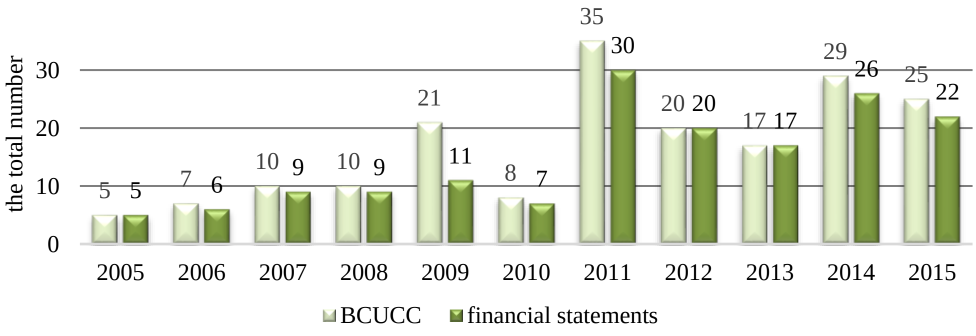
4. Methods of Accounting for BCUCC in the Practice of Polish Public Companies

To further examine to what extent national GAAPs may fill the gap in IFRS related to BCUCC, empirical research was conducted in which the following issues were examined:
- what methods were used to account for business combinations under common control,
- what scope of disclosure was presented,
- to what extent was compliance with the requirements of the Accounting Act observed?

The authoress focused on legal mergers[6] only, as it is easier to determine a potential research subject and find the necessary information in separate financial statements[7] of combined companies that participated in a legal merger. The random research sample consisted of 187 business combinations[8] that met the following criteria:
- they were BCUCC (confirmed by analysis of the current reports of these companies),
- they took place in the years 2005–2015,
- they involved publicly accountable companies listed on the Warsaw Stock Exchange or the alternative trading market (NewConnect),
- the financial statement of the combined company was prepared in accordance with IFRS.

For each of these business combinations, an annual financial report for the year in which the merger had taken place was analysed. The total number of financial reports analysed was 162, as more than one business combination per report was accounted for in a few cases (Figure 1). As required by the Accounting Act, all of them were examined by internal auditors.

Figure 1. The number of the analysed legal mergers in 2005–2015



Source: author's own elaboration

[6] Later also called „mergers" and „business combinations", in order to avoid unnecessary repetitions.

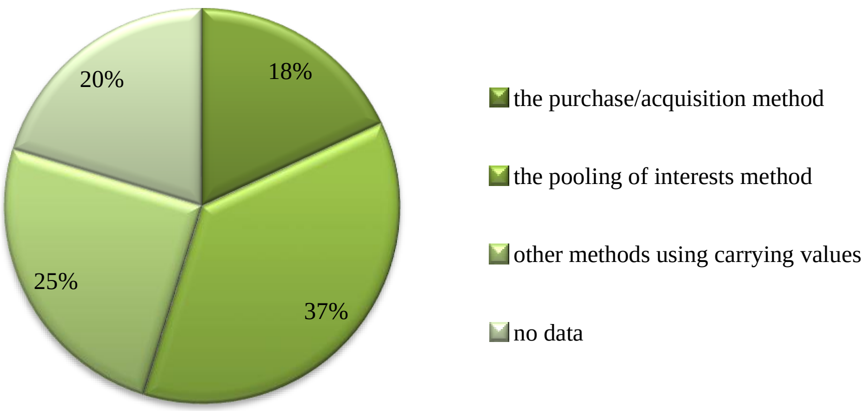
[7] As very little to no information about BCUCC is usually presented in consolidated financial statements, only separate financial statements were taken into consideration.

[8] It should be noted that BCUCC made for around 90% of all business combinations that took place in companies using IFRS to prepare their financial statements.

The examination of the data presented in Figure 1 allows us to notice that the number of mergers varied, depending on the year. With the exception of 2010, it also was higher after the financial crisis started. This could point to the conclusion that over the years 2009 – 2015, a major trend toward reorganizational processes inside of the groups could be observed in the Polish financial market. It could have been triggered by the financial crisis, as the number of BCUCC increased significantly (with the exception of 2010) in comparison with the situation before the crisis. This assumption may be supported by the structure of legal mergers in these years, where the percentage of business combinations exceeded 90%, with a lower percentage of them before the crisis, and later its effect subsided a little.

Further analysis focused on the methods of accounting for business combinations that were used by combined companies (see Figure 2). The results confirmed the IASB and EFRAG findings on how BCUCC are accounted for, and they also point to the strong preference for the predecessor method.

Figure 2. Methods of accounting for business combinations by the analysed companies



Source: author's own elaboration

The method of accounting that was most commonly used by the analysed companies (37% of legal mergers) was the pooling of interests method. Although IFRS 3 does not allow its use, it may be justified with the application of the Accounting Act regulations in the case of BCUCC. This situation complies with the requirements of IAS 8.

It should be noted that despite the declaration about the use of the pooling of interest method, there were a few companies that presented goodwill related to the business combination in the financial statement of a combined company (e.g. Famur, Bakalland). This occurrence may point to the fact that, in some cases, either the method of accounting is wrongly identified or the rules according to which the pooling of interest should be applied were not properly comprehended.

The purchase/acquisition method[9] was used in 18% of the analysed business combinations. In some cases regarding mergers that took place after 2009 (when the revised version of IFRS 3 should be applied), the old name (the purchase method) was indicated in the financial statement. It is impossible to say if the company used the purchase method (which complies with the requirements of the Accounting Act and IAS 8) or if the name was used by mistake. There were also a few cases where the acquisition method was declared. While its application does not quite go along with the Accounting Act regulations, the authoress finds it acceptable due to the very strong similarities between the purchase and acquisition methods and the same measurement basis for the acquired company.

This analysis also showed a curious occurrence. In 25% of mergers, the combined companies indicated the application of some other methods of accounting, which also fall into the category of the predecessor method as they use carrying values as the measurement basis. However, the description of these methods, assuming they were included in the financial statement as a part of the accounting policy used by the company, leads to the conclusion that very individual approaches to the matter were applied in practice.

Some companies indicated they had transferred the values presented earlier in a consolidated financial statement to the separate financial statement of the combined company (i.e. Ferro, Alior Bank). This approach also results in transferring the previously recognized goodwill and other intangible assets recognized on the acquisition date to the financials statement of the combined company.

A number of companies did not specify the rules of the applied method, stating instead that carrying values were used, without determining if they were taken from a consolidated or separate financial statement (e.g. Grupa Żywiec). In a few cases (e.g. BGŻ PNB Paribas) the description of the method suggested that perhaps the pooling of interest method was used, however, it is impossible to say it with full certainty. One of the companies (ATM Grupa SA) declared the use of carrying values, without any explanation about what kind of carrying values were applied. The way in which this information was presented also suggests that only the data in a statement of financial position was aggregated.

In the most curious occurrence among these companies, the presented data suggested that goodwill was recognized on the day on which the legal merger was registered, despite the fact that only carrying values (taken from the consolidated financial statement) were used. This, however, may also be the case of information being unintentionally misreported, and the goodwill was, in fact, transferred from the consolidated financial statement.

The use of these methods may be considered to be compliant with the requirements of IAS 8. However, it should be stressed that the use of methods other than the purchase/acquisition method and the pooling of interests method is not allowed by the

[9] The authoress presented both methods in the same group due to very few differences between them.

Accounting Act after its amendment in 2008 (in force since 2009). This situation may point to the confusion as to which regulations are, in fact, more important – the requirement set by IAS 8 or the regulations of the Accounting Act.

There were also cases (20% of mergers) where no method of accounting was indicated. Moreover, the way in which the information about them was presented prevents us from making a guess about what method was used. Even the fact that goodwill was recognized in some of these cases gives no basis to assume that the purchase or acquisition method was used, as goodwill also appeared when the predecessor method was applied. As it is, it is impossible to draw any conclusion on the matter. The lack of information about what methods were used to account for BCUCC makes it impossible to assess the impact of the merger on the financial position and financial results of the combined company.

A separate matter of analysis may be the scope of disclosure made in the financial statements of combined companies. It should be assumed that if the company used IFRS 3 to account for BCUCC, the information provided should comply with its requirement. A similar assumption may be easily made about situations where the Accounting Act was applied. However, no such regulations for other methods exist in Poland.

The analysis of the financial statements showed that the scope of disclosure differed greatly, depending on the company. It was not always consistent with the requirements of the accounting regulations used by the entity (IFRS *vs*. the Accounting Act), assuming there were any used. There were financial statements where no information about the methods used was provided, although the company did admit that the merger had taken place (e.g. Scanmed Multimedis), and some others when the merger was not even mentioned (e.g. Drozapol-Profil). No company that used IFRS 3 provided all information required by these regulations. There was also no company that made a full disclosure for the methods resulting from the Accounting Act, although a few almost met the requirements (e.g. Pragma Faktoring).

It should also be noted that the scope of disclosure varied, depending on the company. Sometimes very detailed information was provided, including fragments of draft terms of the merger. However, there were a few financial statements in which the fact that the business combination had taken place during the operational year was not even mentioned. 24.6% of the analysed financial statements contained information about what accounting policy is used for BCUCC. In 19.8%, the procedures used to account for these business combinations were described. This information did contribute to a better understanding of how BCUCC affected the financial data presented in the financial statement. The authoress was positively impressed by the detailed descriptions of the accounting policy in the case of BCUCC that has started to appear in financial statements in recent years (e.g. Orange Polska, Tauron Polska Energia).

Summarizing this part, the following conclusion may be made. Despite the fact that the Accounting Act clearly states that all matters not governed by IFRS/IAS should be accounted for according to the Accounting Act regulations, the empirical research proves that it is not always the case. Among the approaches resulting from the application of IFRS 3 and Polish accounting regulations, some other methods are also applied. On the whole, the situation may prove the weakness of the Polish regulations rather than IFRS, as compliance with IAS 8 is indeed observed. It may also suggest a certain level of confusion involved in determining if the regulations of IAS 8 are more important than the Accounting Act where BCUCC are involved.

As noted before, the careful analysis of the data proves that a strong preference for the predecessor method may be observed among the companies. Special attention should be paid to the number of methods of accounting for business combinations applied by the analysed companies, as it may affect the quality of information provided by the financial statements. It leads to a limitation of comparability of the reported information; this fact may be of significant importance for users of these financials statements and their decision-making process.

The lack of a uniform set of disclosures made may also be considered a problem as it makes the assessment of all aspects of the analysed business combinations difficult. In extreme cases, the scope of disclosure about the merger was minimal or even non-existent. As such, it makes the full usability of these financial statements questionable.

Conclusions

The lack of proper regulation may be considered the weak point of international standards where BCUCC are concerned. While it is true that IAS 8 may provide some additional guidance on how to solve this problem, the results of such an approach may, in fact, affect the quality of the financial statements prepared by combined companies.

It could be argued that the gap may be filled with the application of national GAAPs, if they exist. However, as shown by the example of Polish public companies analysed in the research, the statement does not always prove true.

Many Polish companies did apply the solutions resulting from the Accounting Act or, alternatively, IFRS 3 by analogy, which on the whole is mostly consistent with the Accounting Act when it comes to the valuation basis and accounting method rules.

However, the research showed that the companies using IFRS/IAS also used methods not allowed by the Accounting Act, preferring to follow the approach suggested by IAS 8. These methods are based on some type of carrying values and may be applied differently, depending on the company using them. As such, they may be considered the predecessor method, together with the pooling of interest method. In most cases their use was justified as the means to present the effects of a legal merger in the most appropriate way.

Using methods of accounting that are not regulated in any way also decreases the level of comparability of the financial statements in which they are used. There is also a possibility of the manipulation of the information provided to users of these financial statements. The probability of such occurrences increases when no description of the applied method of accounting is given in a financial statement.

Indirectly, the Polish example may also give some idea about how the current situation influences the realisation of the IFRS objectives on a global scale, where different approaches and many different methods are used.

The situation proves, in the authoress' opinion, that even the existence of national GAAPs regulating the matter of BCUCC in order to account for this type of business combination does not guarantee that these regulations will be used in practice. Indirectly, the situation may also suggest some confusion about the importance of particular regulations and how exactly the hierarchy resulting from IAS 8 should be applied. It should be also mentioned than national regulations may assure some level of consistency in the methods used and comparability, but only in the country in which they are in force. The material collected by the IASB suggests that many alternative approaches are used in different countries, which, as a result, may lead to significant differences in the presentation of the same situation and affects comparability.

Another problem connected with the lack of one authoritative piece of guidance is the absence of one clear list of disclosures that should be presented in the financial statement of the combined company. If only minimal or no information is given, questions about the usefulness of such a financial statement may be raised, as it is hard to assess the changes in the financial statements of a company without knowing what exactly caused them.

Summarizing, the authoress is convinced that authoritative accounting guidance on the matter of BCUCC is necessary. While it may have little importance on the national level, due to the existence of national GAAPs that should regulate the matter, it becomes more problematic on the international level. Firstly, it would limit the number of approaches used in practice. It is not the authoress' intention to imply that only one method of accounting should be used in such cases. Quite the contrary, it would be perhaps more advisable to allow two alternative methods, the acquisition method and the predecessor method, depending on what is the substance of the transaction between the combining parties. However, such a standard should provide only one set of application rules for the predecessor method, which would limit the number of these methods used in practice and, ultimately, increase the comparability of financial statements prepared in accordance with it. A separate standard for BCUCC would also provide a uniform set of disclosures that should be presented in a financial statement, which, as a result, should increase the quality of data provided to information users. As a result, the goal of developing IFRS could achieved for BCUCC.

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