ARTICLES

CENTRAL EUROPEAN REVIEW OF ECONOMICS & FINANCE
vol. 36. No 1 (2022) pp. 5-20
DOI https://doi.org/10.24136/ceref.2022.001

Małgorzata Białas*

THE USE OF ESTIMATED VALUES TO IMPLEMENT THE "*BIG BATH*" STRATEGY DURING THE COVID-19 PANDEMIC ON THE EXAMPLE OF SELECTED ENTERPRISES

Abstract

The big bath strategy applies to a situation when enterprises intentionally show large losses in order to be able to boast a high profit in the next period. They often use estimates for this purpose. The aim of the paper is to check how often the chosen companies have used the Covid-19 pandemic to implement the big bath strategy in 2020.

***Keywords*:** big bath, accounting estimates, Covid-19

***JEL clasification*:** M41

Paper type: Theoretical research article

Introduction

Doing business comes with inherent risks and uncertainties in the economic environment, including crises caused by various external factors. In recent years, the SARS-Co V-2 coronavirus, which causes acute respiratory disease COVID-19, has become such a factor. The rapid increase of infections in many countries caused the World Health Organization (WHO) to declare a global pandemic on March 11, 2020. The virus has mutated many times in the meantime, but the pandemic has left its mark on nearly every economy in the world. The restrictions introduced

* PhD, AGH University of Science and Technology, Faculty of Management, Krakow

by the state authorities resulted in a general limitation of mobility on an unprecedented scale.

About 90% of the world's population has been affected by unprecedented global travel bans, stay-home policies and assembly bans. Actions aimed at stopping the spread of the coronavirus pandemic, however, made it possible to achieve the overarching goal of saving human lives (Czech, Karpio, Wielechowski et al., 2020). The COVID-19 pandemic has led around the world, among others, to an increase the volatility of stock prices, a decline in nominal interest rates, a decline in economic activity and, consequently, a decline in real GDP. The pandemic has also had an impact on the profitability of individual companies.

On the one hand, we are dealing with a pandemic, which has a negative impact on the finances of economic entities from selected industries, on the other hand, accounting standards allow economic units to use accounting estimates in financial statements, and accounting estimates should be understood as approximate amounts cash accepted by the entity to measure certain elements of its financial statements. These values may have an impact on the financial results of a given economic entity, what is more, they may distort them.

It would therefore seem that the above-mentioned circumstances are conducive to the use of the big bath strategy by companies that have been most affected by the Covid-19 pandemic.

The big bath strategy applies to a situation when the company intentionally shows a large and even greater loss in order to be able to boast a higher profit in the next period. This strategy is most often used when external circumstances, independent of the enterprise, contribute to the deterioration of its financial results. The pandemic was such a circumstance in 2020.

The main goal of the paper is to check how often the companies from selected industries have applied the big bath strategy during the COVID-19 pandemic in 2020.

1. The Concept of Creative Accounting

The *big bath* strategy is undoubtedly connected with the concept of creative accounting, as this strategy is intended to deliberately distort the financial result included in the financial statements. These reports are one of the main sources of obtaining information about an enterprise. In order to be useful for their recipients, they must be prepared according to specific rules. Despite the large number of legal provisions regulating the preparation and content of financial statements, there is always a certain margin that allows for an individual approach to the company. This individual approach may take the form of window dressing or even creative accounting. The first of these concepts applies to a situation where an enterprise, most often at the end of a financial year, without breaking the law, tries to present its financial situation more favorably than it actually is, using various techniques. On the other hand, the second concept, ie "creative accounting", is often treated as a definitely negative phenomenon, even bearing the hallmarks of a crime.

According to W. Wąsowski (2010) "creative accounting is one of the pathologies of the market economy, financial fraud, next to money laundering, embezzlement or share price manipulation". M. Wiatr (2006) has the similar opinion, he treats creative accounting as a tool for “using financial statements to mislead rather than inform”. A negative perception of this phenomenon can also be seen in the works of O. Amat, J. Blake and J. Dowds (1999), who defined creative accounting as "the process by which accountants use their accounting knowledge to manipulate the values presented in financial statements".

Although such a negative understanding of the concept of creative accounting dominates in the literature on the subject, there are also voices pointing to the positive meaning of this concept. The term "creative" means "having the ability to create something new, original, creative" (Dunaj et al., 2001) Following this path, creative accounting in a positive sense is an element of the accounting system and means the ability to optimally adjust the accounting policy to the needs of the individual (Maślankowski, 2004). Therefore, it can be treated as a desirable phenomenon, free from any signs of a crime. Creative accounting is therefore a normal practice used by all enterprises, consisting in presenting the best possible picture of their economic situation in accordance with the applicable law (Schneider 2007). K. Gierusz (2010) emphasizes that accounting should not be treated as an exact science, in which there is no room for any freedom and which "has the tools to unquestionably organize business operations into, for example, specific categories of costs or revenues". According to K. Gierusz, identifying creative accounting with embezzlement and fraud is inappropriate, therefore he tends to separate this concept from "aggressive accounting", although, of course, one must bear in mind that the line between these concepts may be very thin. Therefore, in the literature on the subject, there is a distinction between creative and aggressive accounting. The first one is equated with "interpreting accounting principles in a way that is not directly indicated in these regulations, and which is the result of an ingenious, creative and non-standard application of these regulations and principles" (Tokarski, 2009). On the other hand, aggressive accounting should be understood as "deliberate and intentional recording and presentation of economic events in a manner inconsistent with the provisions and accounting principles, which may harm users of accounting information by presenting a different (better or worse) economic situation of the entity. It is carried out with the deliberate intention of embezzlement, aimed at artificially inflating profits or concealing losses, and can be very harmful, and in extreme cases - as confirmed by practice - mask the bankruptcy of the enterprise ”(Tokarski, 2009).

These considerations can be summed up by the words of S. Zulfiqar Ali Shah and S. Butt (2011): “Creative accounting is a similar tool as a weapon. If used correctly, it can bring significant benefits to its owner; but if it is misused or in the wrong hands, it causes great damage. Creative accounting has brought more benefits than losses during the crisis. Weapons are almost always innocent; if it has been used to cause damage, only the one who has used it is to blame ”.

Creative accounting is undoubtedly related to the *big bath* strategy. The subject of further analysis, however, will not be to determine whether the treatments performed by selected companies were *window dressing* or of a negative creative accounting.

2. *Big Bath* Strategy

The value and structure of generating a financial result is very important to many readers of financial statements. It is therefore not surprising that the profit and loss account has become an area in which the effects of creative accounting can often be found. There are several basic strategies of shaping the financial result depending on the goals, namely (Piosik and Strojek-Filus, 2013):

- Income smoothing, the aim of which is to achieve stable profit margins;
- avoidance of accountig loss in line with the principle that even the smallest profit is better perceived by investors than a loss close to zero;
- avoidance of earnings reduction,
- intense profit increase,
- significant reduction of the result / increase of the loss (*big bath*).

The strategy of intensive profit increase aims to show significant increases in profit compared to the previous period. If this is done contrary to the regulations, in the long run it means the need to reverse the estimates and, as a result, after some time it becomes necessary to show a loss.

The *big bath* strategy consists in deliberately worsening the financial result of an entity in order to be able to demonstrate an improvement in profitability in the next period. Quoting A. Piosik and M. Strojek-Filus (2013), these activities consist in "deliberate and significant increase in the reported loss (possible increase in profit reduction) in order to facilitate showing the increase in the net financial result in future periods". Such actions can be taken by economic units that are aware that in the current period they will show a loss anyway (due to the unfavorable change in the macro-environment, e.g. during the global crisis or other problems affecting a given industry and independent of a given entity), thus increasing this losses will not be viewed negatively. In the following periods, however, they will be able to show a much greater and faster improvement in the financial situation, which will be better perceived by potential investors and lenders.

Big bath strategies have already been studied. In 2006. M.E. Barth, W.R. Landsam, M.H. Lang (2006) conducted research on a sample of companies from 23 countries that have introduced International Accounting Standards (IAS). It turned out that companies that applied these standards more often showed a large loss. The analysis conducted on a sample of 108 companies in 1999-2006 in Germany by U. Schäffer, J.P. Lüdtke, D. Bremer, M. Häußler (2012). The researchers noted that accounting standards applied by entities had a significant impact on shaping financial results and the application of the *big bath* strategy. Research in this area was carried out by A. Piosik (2013) on the basis of companies listed on the Warsaw Stock Exchange in 2000-2010. He wondered if companies applying the polish Accounting Act were more likely to suffer a large loss than companies that prepared financial statements in accordance with International Financial Reporting Standards. He defined the loss as a large loss at the end of the period, which is at least 10% of the assets. As a result of the conducted research, it was not possible to demonstrate that the application of the International Financial Reporting Standards would increase the frequency of reporting a large loss. J. Elliott and W. Shaw (1988), on the other hand, arbitrarily defined the b*ig bath* as a write-off in excess of 1% of the book value of the company's assets. Their mostly descriptive results showed that companies using these discretionary large baths were typically larger than other companies in their industries, and also more leveraged.

In turn, M. Chraścina (2016), analyzing the financial statements of 267 companies listed on the Warsaw Stock Exchange in 2011-2015, noticed that reporting large losses is largely influenced by changes in the management board and the size of the enterprise.

Interesting analyzes were carried out by P. Fiechter and C. Meyer (2010), who clearly indicated the use of *big baths* among banking capital groups in the United States in 2008 and 2009. During this period, the global economic crisis continued and many financial institutions suffered from the market collapse, which resulted in huge losses being shown. In addition, the financial market lost liquidity, which resulted in difficulties in the valuation of assets and liabilities. Several banks took advantage of this situation and deliberately presented much larger losses during the crisis period in order to improve their results in the next period. Thanks to this procedure, already in 2009 and the improvement of the market situation, several banks managed to show a positive financial result.

It is worth emphasizing at this point that showing a large loss does not always mean using the *big bath* strategy. A large loss may also result from internal problems faced by a given enterprise or from problems that affect the entire industry.

Several studies have been conducted in Poland in the context of Covid-19 and its impact on financial statements. Most often these studies show a significant impact of the pandemic on the financial data presented in the financial statements of selected companies. And so B. Wacławik (2021) analyzed selected companies listed on the Warsaw Stock Exchange and noticed that some companies had to issue shares in order to maintain financial liquidity (e.g. CCC S.A.). On the other hand, other economic entities were able to repay loans even ahead of schedule, which confirms their very good financial condition. There is also a frequent theme in the literature for the continued operation of listed companies in connection with COVID-19. An example may be the work of E. Chrostowska and K. Koleśnik (2021). The authors focused on listed companies and noticed that almost half of the entities that declared going concern showed uncertainty about going concern. It is also interesting to note that different ways of presenting information on uncertainty may make it difficult for interested parties to draw conclusions. On the other hand, the research of S. Hońko, M. Remlein et al. (2020) pointed to further problems related to the presentation of the risk resulting from Covid-19 in the financial statements of listed companies. According to the authors, some companies completely ignored the risks associated with the pandemic in their financial statements, and in some cases the scope of disclosures was only symbolic.

The above studies concerned large companies, but there are also analyzes focusing on the impact of Covid-19 on the financial results of entities from the SME sector in Europe. According to C. Wang (2020), if the epidemic were to be persisted for a long time, for example over six months, and if it spread to many other countries around the world, the impact on the financial performance of SME entities operating in the tourism industry would be significant. The authors who conducted a comparative analysis of the impact of Covid-19 with the effects of the SARS epidemic on the same group of entities, i.e. operating in the tourism industry, were of a similar opinion (Secinaro, Calandra, Biancone, 2020). Taking into account the publication date of the papers (i.e. the beginning of 2020), it is already known that the basic assumptions about the duration of the pandemic have not been met.

The above studies describe the impact of Covid-19 on the financial statements of selected companies. However, they do not refer to the *big bath* strategy used by these companies. On the other hand, B. Lisicki (2021) wondered how often Polish listed companies informed about the impairment of assets in 2020 compared to the previous years. It turned out that during the Covid-19 pandemic, the number of reported decreases in the value of assets was much greater than in previous years. Although the *big bath* strategy is not mentioned in the paper, the described practices used by the analyzed entities by B. Lisicki have characteristic features of this strategy. Similar research was carried out by A. Kuston et al. (2021), observing the financial statements of 33 Indonesian listed companies operating in the mining area. They noticed that those enterprises that apply the *big bath* strategy use the impairment of their assets for this purpose.

These studies confirm the use of estimated values in the *big bath* strategy in 2020, in particular when reporting the impairment of assets. The conducted research, which will be described below, focused not only on the impairment of assets, but also on other possibilities of using estimated values in the *big bath* strategy.

This paper will present the results of analyzes of Polish listed companies in the catering industry, as there is no literature research on the impact of Covid-19 on the financial statements of companies in this segment. Research on Polish listed companies is described without indicating a specific segment. There are also analyzes focusing on a selected segment, for example tourism or mining, while there is no analysis of financial statements of catering companies. And yet this is an industry that has also suffered greatly from the government's decisions in 2020. Therefore, the first research hypothesis is **H1: the listed companies in the catering industry are eager to use the *big bath* strategy in the first year of the Covid-19 pandemic**.

For comparison, companies that are not listed on the stock exchange and which also operate in the catering industry were analyzed. Additionally, the analysis of companies from the hotel and tourism industry was included. No research results were found regarding Polish entities from these industries and the impact of Covid-19 on their financial statements. Although the research conducted by C. Wang and S. Secinaro concerned the tourist segment, they did not include the financial statements for the entire year 2020, when further restrictions were introduced.

The following sentence was adopted as the second hypothesis **H2: smaller entities also use the *big bath* strategy. This hypothesis applies to entities that are not listed on the stock exchange, and which operate in the catering, hotel and tourism industries.**

<u>Research methodology</u>: the paper was prepared on the basis of a review of Polish and foreign literature and an analysis of financial statements of selected economic entities. Separate financial statements of 3 listed companies from the catering industry and 30 smaller non-listed companies

from the catering, hotel and tourism industries were used for the analysis. The analysis was carried out for the years 2018-2020. The criterion for the selection of the analyzed companies was the availability of individual financial statements verified by the statutory auditors. These industries were selected due to the fact that these industries were severely affected by the restrictions introduced by the government during pandemic in 2020.

3. Estimated Values

The strategy of *big baths*, i.e. overcharging the financial result with costs, is possible, inter alia, by using estimated values in accounting.

Accounting estimates mean the approximate monetary amounts that an entity uses to measure specific elements of its financial statements. According to J. Pfaff (2016), a significant part of the balance sheet and profit and loss account items are estimated items. The reasons for this state of affairs should be sought:

- in the uncertainty of the economic environment in which economic entities operate;
- in gradual departure from historical valuation in favor of fair value, which forces the accounting system to describe the probable economic future of economic entities (Gos, 2011);
- striving to obtain financial information in a relatively short time, even at the cost of its accuracy.

The concept of accounting estimates is applied not only to items measured at fair value but also to other items that require certain estimates. According to M. Towpik et al. (2011), the following items of financial statements are most often associated with estimated values:

- tangible fixed assets and intangible assets,
- impairment of fixed and current assets,
- goodwill,
- deferred tax,
- long-term contracts,
- accruals and provisions for liabilities.

The consequence of using these values in the balance sheet are estimates that are shown in the profit and loss account and have a direct impact on the financial result. For example, the valuation of assets or liabilities at fair value or the adjusted purchase price causes the differences in this value to be recognized in the income statement as costs or revenues depending on the direction of changes. Making impairment losses on assets is also an expense. It may apply to both trade receivables write-offs and fixed assets impairment write-offs. In each case, we are dealing with estimated values that will be included in costs. In the event of a reversal of the entry, e.g. due to a change in conditions, revenues can be recognized, which will improve the financial result. We also meet the estimated values when determining the expected period of use of a fixed asset, and thus - the appropriate depreciation rate.

These are only the examples of the use of company estimates which are mentioned above. Nevertheless, it can be seen that the estimates have a large impact on the shape of the financial statements, and thus on the financial result.

Changes in estimated values are most often presented in the profit and loss account as other operating income or costs. Therefore, the subject of further research will be the increase in the value of other operating costs in 2020.

4. Research Results

The purpose of the research is to check whether, during the pandemic period especially in 2020, selected companies listed on the Warsaw Stock Exchange, applied the *big bath* strategy by showing a greater loss due to the estimates in their reports financial.

For this purpose, 3 listed companies were analyzed: Sfinks Polska S.A.; AmRest Sp. z o.o (part of AmRest Holding SE), Mex Polska S.A. These are companies that operate in the area of restaurants and other catering establishments (EKD 56.10.A). This industry was considered to be one of the hardest hit as a result of the restrictions imposed by the government in 2020. By the decision of the prime minister, on March 13, 2020, the gastronomy sector was suspended for the first time. After 9 weeks, on May 18, 2020, it was resumed for 23 weeks with sanitary restrictions. On October 24, 2020, the gastronomy was closed again until further notice. As estimated by the Polish Gastronomy Chamber of Commerce, as a result of the pandemic in 2020, about 130,000 people from this industry lost their jobs, and over 8,000 restaurants were declared bankrupt. Only 5% of entities managed to change their business profile (bankier.pl).

The analysis was performed on the basis of individual reports.

The calculated sales profitability ratios (calculated as: profit on sales / sales revenue) are presented below to underline the problems of these units in 2020.

Table 1: Return on sales and return on assets for selected 3 listed companies from the catering industry in 2018-2020 / in%/

Return on sales	2018 r.	2019 r.	2020 r.
Sfinks Polska S.A.	3,4	4,1	-15,1
AmRest Sp. z o.o.	6,1	7,6	-0,9
Mex Polska S.A.	26,3	9,7	-38,1
Return on assets (ROA)	**2018 r.**	**2019 r.**	**2020 r.**
Sfinks Polska S.A.	-2,37	-6,07	-39,99
AmRest Sp. z o.o.	2,20	0,95	-5,43
Mex Polska S.A.	6,12	3,53	-20,53

Source: own study based on the financial statements of the entities mentioned

It can be seen that while in the years before the pandemic, the units operated profitably, in 2020 all entities reported a loss on sales, which had an impact on the negative profitability of sales. Mex Polska S.A. recorded the lowest rate. As a result, the examined companies also showed a net loss, which had a negative impact on the ROA (return on assets) ratio. Sfinks Polska S.A. had the worst result in this area.
It would seem that in such a situation the companies will apply the *big bath* strategy, since the basic operating activity resulted in a loss on sales anyway. The table below shows the growth dynamics of other operating costs.

Table 2: Growth dynamics of other operating costs for selected 3 listed companies from the catering industry in 2018-2020 / in%/

Growth dynamics of other operating costs	2018/2019	2019/2020
Sfinks Polska S.A.	-59,7	570,6
AmRest Sp. z o.o.	36,2	197,7
Mex Polska S.A.	1706,3	-78,6

Source: own study based on the financial statements of the entities mentioned

From the calculations provided, it can be concluded that in 2020 the *big bath* strategy was applied by 2 companies: Sfinks Polska S.A. and AmRest Sp. z o.o. On the other hand, MexPolska S.A., despite the fact that it had the lowest value of the sales profitability index, even showed a decrease in other operating costs.

The most common items in other operating costs of the analyzed companies that were related to the use of estimates include:

- established provisions for probable liabilities,
- liquidation of fixed assets,
- write-downs for receivables,
- established revaluation write-offs for fixed assets.

Both Sfinks Polska S.A. and AmRest Sp. z o.o. the highest values among other operating costs were shown in the estimates of impairment losses on fixed assets (PLN 22,886 thousand and PLN 53,127 thousand, respectively). It is also worth looking at the ratio of other operating costs to the value of assets, as shown in Table 3.

Table 3: Ratio of other operating costs to the value of assets of selected 3 listed companies from the catering industry in 2018-2020 /in %/

Ratio of other operating costs to the value of assets	2018 r.	2019 r.	2020 r.
Sfinks Polska S.A.	7,08	1,51	17,57
AmRest Sp. z o.o.	0,62	0,82	2,61
Mex Polska S.A.	0,27	3,98	1,10

Source: own study based on the financial statements of the entities mentioned

It is clearly visible that Sfinks Polska S.A. it has the highest ratio of other operating expenses to total assets.
The first research hypothesis H1 was confirmed because two out of three listed companies in the catering industry implemented the *big bath* strategy in 2020.

In order to verify another research hypothesis, a total of 30 companies were analyzed, 10 companies each from the catering industry (EKD 56.10.A), from the hospitality industry (EKD 55.10.Z) and from the activities of tourism organizers (EKD 79.12.Z). The analysis covered the years 2018-2020, which meant that a total of 90 separate financial statements were analyzed. The entities whose reports were available and which were audited by statutory auditors were selected.
The results of the calculated indicators and their interpretation will be presented in the following tables.

Table 4: Average return on sales and return on assets calculated for 30 companies from the three sectors mentioned in 2018-2020 /in% /

Average return on sales	2018 r.	2019 r.	2020 r.
turism	-14,4	3,7	-7,7
gastronomy	12,7	12,2	-0,3
hospitality industry	8,3	7,9	-10,1
Average return on assets ROA	**2018 r.**	**2019 r.**	**2020 r.**
turism	12,7	14,4	1,3
gastronomy	23,0	28,0	2,6
hospitality industry	7,0	5,8	-18,8

Source: own study based on the financial statements of the analyzed entities

It is clear that the hospitality industry has been the hardest hit in 2020 as a result of government action to tackle Covid-19. It should be noted that the average value of the sales profitability ratios is more favorable than for Mex Polska S.A. (minus 38.1%). On the other hand, in the area of the return on assets, Sfinks Polska S.A. it had a much worse result (minus 39.9%).

However, it should be borne in mind that these are only average values. A closer look at the results of the sales profitability index shows that among the 10 selected business entities from the hotel services industry, the worst result was related to Nosalowy Dwór Sp. z o.o. and it was 43%. In terms of return on assets, Focus Hotels S.A. had the worst result. (61.7%) and Nosalowy Dwór Sp. z o.o. (51.8%). It can be seen, therefore, that not only listed companies have poor results in the area of profitability.

In turn, in the catering industry, the average sales profitability ratio was at a relatively high level (minus 0.3%), which results from the fact that as many as 7 companies achieved profit on sales and only 3 companies reported a loss. North Food Polska S.A. reached the value of the sales profitability index at the level of minus 48.2% in 2020, which is much more than Mex Polska S.A. (minus 38.1%).

Table 5: Average ratio of other operating costs to the value of assets calculated for 30 enterprises from the three sectors mentioned in 2018-2020 / in% /

Average ratio of other operating costs to the value of assets	2018 r.	2019 r.	2020 r.
turism	3,5	3,3	2,8
gastronomy	3,0	9,0	7,7
hospitality industry	3,1	2,5	3,3

Source: own study based on the financial statements of the analyzed entities

Table 5 shows that in 2020 the average share of other operating costs in the value of total assets was the highest in the catering industry, despite the fact that their profitability ratios were not that negative. Such a high level of this measure (7.7%) in 2020 was decisively influenced by Wrocławska Akademia Kulinarna Sp. z o.o. sp. k., which both in 2019. and in 2020. showed the value of this ratio above 40%. After eliminating this company from the research sample, the average value of the ratio of other operating costs to the value of assets would be 4.7% in 2019 and 4% in 2020, which is lower than the value of this ratio calculated for Sfinks Polska S.A. (17.57%).

It can be seen, therefore, that smaller companies from the gastronomy, hotel and tourist services industries do not follow the *big bath* strategy. The amount of other operating costs did not increase significantly.

Observable, these entities tried to do their best to minimize the negative impact of Covid-19 on their financial statements. They also often increased the value of other operating income, as shown in Table 6. Thus, the second research hypothesis H2 should be rejected, as non-listed companies from the catering, hotel and tourist services industries rather did not apply the *big bath* strategy in 2020.

Table 6: Average value of the ratio of other operating income to total assets calculated for 30 enterprises from the three sectors mentioned in 2018-2020 / in% /

Average value of the ratio of other operating income to total assets	2018 r.	2019 r.	2020 r.
turism	3,1	3,2	8,2
gastronomy	4,3	8,6	9,7
hospitality industry	4,1	2,8	5,8

Source: own study based on the financial statements of the analyzed entities

It can be easily seen that small companies save their bottom line by increasing the value of other operating income. Unfortunately, due to the lack of precise information, it is not possible to check which items are the most common.

Calculating correlation coefficients between different values for 30 companies did not bring the expected results. No significant correlation was found between the profitability ratios and the value of other revenues or costs.

5. Conclusions

The *big bath* strategy is used by companies when they want to intentionally show a large loss in order to be able to boast a high profit in the next period. This is especially true for the period when external circumstances justify lower profitability rates. Estimates are very suitable for this type of strategy.

The purpose of this paper was to check whether selected companies in 2020 during the Covid-19 pandemic applied the *big bath* strategy. For this purpose, the financial statements of three listed companies and 30 smaller business entities were analyzed. These smaller entities were not listed on the stock exchange and operated in the catering, hotel and tourism industries as tour operators. These are industries that have been particularly hard hit by the restrictions introduced by polish government in 2020.

It turned out that Sfinks Polska S.A. and AmRest Sp. z o.o. applied the *big bath* strategy. Thus, the first research hypothesis was confirmed, saying that listed companies from the catering industry willingly use the *big bath* strategy in the first year of the Covid-19 pandemic. Only the financial statements for 2021 will be able to confirm the purposefulness of the write-offs and increasing the value of other operating costs.

The remaining entities from the industries mentioned apply this strategy to a lesser extent. It was noted that 30 unlisted companies prefer to save the financial result by increasing the value of other operating income rather than "clean the balance sheet" through the costs. No significant correlation was found between the profitability ratios and the value of other revenues or operating costs for these companies. Therefore, the second research hypothesis that smaller entities also use the *big bath* strategy should be rejected.

The paper may be an inspiration for further research, including comparative research, in companies from the same and other sectors. The issue is vital, all the more so as the impact of the pandemic may change over the time.

Literature

1. Amat O., Blake J., Dowds J. (1999). The Ethics of Creative Accounting [w:] Economics Working Paper nr 349, Universitat Pompeu Fabra, Barcelona
2. How many jobs will gastronomy lose? Alarming data, *(n.d.)* (2020). from https://www.bankier.pl/wiadomosc/Ile-miejsc-pracy-straci-gastronomia-Niepokojace-dane-8017200.html, [date of entry: 25.01.2021]
3. Barth M.E., Landsam W.R., Lang M.H. (2006). International Accounting Standards and Accounting Quality, „Journal of Accounting Research", Vol. 46, Issue 3
4. Chraścina M. (2016). Shaping the net financial result in order to apply the big bath strategy on the example of companies listed on the Warsaw Stock Exchange, „Studia Ekonomiczne. Zeszyty Naukowe Uniwersytetu Ekonomicznego w Katowicach" Katowice, nr 284
5. Chrostowska E, Koleśnik K. (2021). Going concern in the financial reports of listed companies during the COVID-19 pandemic – the results of an empirical study, Zeszyty Teoretyczne Rachunkowości nr 113, Stowarzyszenie Księgowych w Polsce, Warsaw
6. Czech K., Karpio A., Wielechowski M., Woźniakowski T., Żebrowska-Suchodolska D. (2020). Polish economy in the initial period of the Covid-19 pandemic, SGGW Publishing House, Warsaw
7. Dunaj B. (red) (2001). The Popular Dictionary of the Polish Language, Wilga, Warsaw
8. Fiechter P, Meyer C. (2010). *Big Bath Accounting Using Fair Value Measurement Discretion During the Financial Crisis*, http://www.business.uzh.ch/professorships/entrepreneurship/workshop/Fiechter.pdf [date of entry: 20.01.2022]

9. Gierusz K. (2010). Pojęcia i przejawy rachunkowości kreatywnej, „Accountica", nr 17, (https://docplayer.pl/10245030-Accountica-miesiecznik.html) [date of entry: 19.01.2022]
10. Gos W. (2011). Balance - meaning, concepts of preparation, forms of presentation, PWE, Warsaw
11. Hońko S., Remlein M., Rówińska-Kral M., Świetla K. (2020). Effects of COVID-19 in the Financial Statements of Selected Companies Listed in Warsaw Stock Exchange, European Research Studies Journal Volume XXIII, Special Issue 2
12. Kustono A., Augustini A., Dermawan S. (2021). Beware of the existence of a big bath with asset impairment after pandemic covid-19!, The Indonesian Accounting Review Vol. 11, No. 1
13. Lisicki B. (2021). The impairment of assets reporting in the COVID-19 pandemic – evidence from the Warsaw Stock Exchange, Zeszyty Teoretyczne Rachunkowości nr 113, Stowarzyszenie Księgowych w Polsce, Warszawa
14. Maślankowski K. (2004). Rachunkowość kreatywna a wartość informacyjna sprawozdań finansowych. Zeszyty Teoretyczne Rachunkowości, t. 25, nr 81
15. Pfaff J. (2016). Wartości szacunkowe w kosztach przedsiębiorstwa oraz procedury ich badania zgodnie z międzynarodowymi standardami rewizji finansowej, Zeszyty Naukowe Politechniki Częstochowskiej, Zarządzanie Nr 23 t. 2
16. Piosik A., Strojek-Filus M. (2013). Procesy kształtowania wyników bilansowych, [w:] Piosik A. (red.), Kształtowanie zysków podmiotów sprawozdawczych w Polsce. MSR/MSSF a ustawa o rachunkowości, Wydawnictwo C. H. Beck, Warszawa
17. Schäffer U., Beisheim O., Lüdtke J.P., Bremer D., Häußler M. (2012). The Effect of Accounting Standards on Big Bath Behavior, Zeitschrift fur betriesbswirtschaft, Vol. 82
18. Schneider K. (2007). Błędy i oszustwa w dokumentach finansowo-księgowych, PWE, Warsaw
19. Secinaro S., Calandra D, Biancome P. (2020). Reflection on Coronavirus Accounting Impact on Small and Medium Sized Enterprises (SMEs) in Europe, International Journal of Business and Management; Vol. 15, Nr. 7
20. Tokarski M. (2009). Sprawozdanie finansowe – niedoskonałe źródło informacji o sytuacji finansowej przedsiębiorstwa, „Przedsiębiorczość - Edukacja", tom 4
21. Towpik M., Kałużny R., Piechocka-Kałużny A. (2011). Badanie wartości szacunkowych w sprawozdaniach finansowych, KiBR, Warszawa

22. Wacławik B. (2021), Corporate Reporting in the Time of COVID-19: Analysis of Information Disclosed by Selected Companies Listed on the Warsaw Stock Exchange, European Research Studies JournalVolumeXXIV, Special Issue1
23. Wang, C. (2020). A novel coronavirus outbreak of global health concern, PIIS, 10(20)
24. Wąsowski M. (2010). Kreatywna rachunkowość. Fałszowanie sprawozdań finansowych, Difin, Warszawa
25. Wiatr M. (2006). Rachunkowość kreatywna a normatywna, Zeszyty Teoretyczne Rachunkowości, t. 34, nr 90
26. Zulfiqar Ali Shah S., Butt S. (2011). Creative Accounting: A Tool to Help Companies in a Crisis or a Practice to Land Them into Crises, [w:] International Conference on Business and Economics Research, Singapore, vol 16