BALANCE SHEET EVALUATION OF ASSETS IN RELATION TO EVALUATION OF THE BANKRUPT ENTERPRISE ESTATE

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Introduction. Functioning of the market economy is causing that every enterprise must take the risk of bankruptcy into consideration. Irrespective of the fact that bankruptcy may be rooted in outside or inside circumstances, the problem of bankruptcies is real and entails making rational decisions. Unfortunately even most rational actions on part of the management can not guarantee that the company will survive. Economy will get rid of weak entities, unable to survive economically difficult period. And so it happens in times of crisis or recession. In order to help enterprises and creditors cope with bankruptcies legal bankruptcy procedure is being applied. The article was devoted to addressing issues of evaluation of assets of bankrupt entities and problems arising from assets evaluation.

The notion and the course of the bankruptcy lawsuit in Poland. The bankruptcy is a legal procedure (in Poland this matter is regulated by Bankruptcy and Repair Act of 28th of February 2003 r.) initiated in case of bankruptcy of a debtor whereby all his creditors file claims. Rationale behind the procedure is fullest fulfilling of debt and if rational premises exist for preserving the substance of the enterprise.

The bankruptcy law is providing for two separate proceedings. The first aims at declaring bankruptcy, in which the court is adjudicating whether ensuing evidences are fundamental to announcing bankruptcy of the debtor. Entity (debtor) is declared insolvent if the debtor isn't incapable to independently fulfill its financial obligations or if debtor's assets are insufficient to cover liabilities, even though debtor may still systematically be paying them off. Remaining premises reviewed by court are the multitude of

creditors (two at least) and value of assets which must be sufficient to cover costs of bankruptcy procedure. If bankruptcy is declared then the court must state if liquidation or arrangement is appropriate. Fundamental difference between liquidation and arrangement lies in raising funds to cover debts. In the first case financial means are being raised from sale of the enterprise, its organized part or elements of its assets. Arrangement assumes in turn that liabilities can be fulfilled from entity's future profits of lent credence. These profits should be justified by the debtor in its arrangement proposals through carried analysis of state of the enterprise, the market, the competitive position, the level and the structure of risk. Deciding upon arrangement the court is also guided by social benefits resulting from preserving places of employment.

In case of liquidation the judge appoints the commissioner responsible for a course of bankruptcy and assigns the official receiver with the task of managing assets of the bankrupt and the liquidation of the bankrupt’s estate. The official receiver creates the stock list estimating assets to be cashed. Making out the liquidation plan containing ways and term of sale of elements of assets is also his duty as well as preliminary plan of expenses and in some cases economic rationale behind further carrying on with the business activity. Next a list of liabilities which will be fulfilled from assets liquidations called the bankrupt's estate funds. Next, claims of creditors are being divided according to so-called categories of interest which determine the rate of claims to be paid (funds of the bankrupt's estate are insufficient for liabilities to be fully covered). After approving all documents actual liquidation the bankrupt’s estate takes place. It takes place in accordance with regulations of the bankruptcy law by tender or free-hand sale. The procedure is over when whole the bankrupt’s estate is cashed or earlier, for example if the court decides upon the change in the mode of the bankruptcy to arrangement.

Arrangement is running in the different way. Judge appoints a commissioner instead the official receiver for the realization established arrangement or appoints a superintendent if CEO is is still in charge of the business. The role of a superintendent is controlling the board of directors in the scope of carrying out the resolutions of the arrangement. After establishing claims, making their list out and the division into categories of interest, the called so-called gathering of creditors takes place. Upon presentation and analysis of arrangement proposals in the scope of ways and dates of future covering debts by the bankrupt, establishing procedures of restructuring (postponing payments, spreading the sum to instalments, making them smaller etc.) agreement is reached by creditors and it is then approved of by the court. If arrangement actions permit for raising essential funds for the repayment of claims this bankruptcy ends with the moment of repayment of the last instalment of debts. Otherwise the judge commissioner is deciding to initiate liquidation procedure.

**Balance sheet evaluation of enterprises declared bankrupt.** Through the time of bankruptcy CEO (or the official receiver, superintendent or the judge commissioner), is responsible for accounting. The moment of declaring bankruptcy has far-reaching consequences on applying accounting principles in the bankrupt entity. Above all, it exerts influence on the superior principle of continuation of actions but also on principles of the continuity (adopting new principles of the evaluation, incomparability of periods for which financial reports are being created). Taking over and closing the books are becoming basic tasks of bankrupt's CEO (or the official receiver et al.). To the purpose of the correct closing the following activities are undertaken including:

- a) to make inventories of assets and liabilities for the day preceding day of declaring bankruptcy,
- b) to explain and to account for revealed inventory differences,
- c) to price elements of assets basing on appropriate regulations of the Accountancy Act,
- d) to create reserves for certain or very probable future obligations (mainly losses from economic transactions in due course),
- e) to create provisions to different predicted costs and losses.

On the basis of closed account books a financial report is being made out for the day preceding the day of declaring bankruptcy. For needs of the financial report establishing balance sheet value of assets and liabilities is taking place in harmony with regulations of the Accountancy Act depending on the mode of

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bankruptcy. In case of arrangement, in which business activity of entity will be continued\(^3\), normal evaluation based on principles resulting from art 28 of Accountancy Acts is carried out i.e.:

a) fixed assets, intangible assets and legal intangibilities in purchasing prices or manufacturing costs or updated value, reduced for depreciation allowances or write-offs, and in case of property and immaterial assets and legal intangibilities rated among investment also according to the market or differently determined fair price,

b) long-lasting shares in other entities in purchasing prices reduced for deductions from the title value, or according to purchasing value in fair or corrected price,

c) short-term investments in market prices or according to purchasing price or the market price, depending on which of them is lower or according to corrected purchasing price,

d) elements of rotational assets in purchasing prices or manufacturing costs but no higher than prices of their net sale for the balance day prices

e) amounts due and loans given, in the amount of due payment, with respect to the principle of carefulness,

f) of liabilities of due payment,

g) provisions whose value is credibly estimated,

h) own shares in purchasing prices,

i) own capital and remaining assets and liabilities in nominal prices.\(^4\)

The liquidation in turn is forcing into using elements to the evaluation of assets of net prices possible to get, no higher than purchasing prices or manufacturing costs, reduced for current depreciation, write-offs, payments due after taking updating deductions into consideration. In case of liabilities it’s necessary to compute interest on the day of declaring bankruptcy independently if they are already due or not.\(^5\) Moreover, bankrupt entity is obligated to making provisions for predicted additional costs and caused losses in case of abandoning the continuation of activity or loss of the ability to continue activity. Amongst these costs it is possible to distinguish:

a) remuneration for the the official receiver, the administrator, commissioners and different persons employed after declaring bankruptcy,

b) amounts due from the title of social security or remunerations of persons from the previous point,

c) costs of announcements, advertisements and the evidential proceedings,

d) costs of meetings of creditors,

e) costs of the liquidation of the bankrupt’s estate,

f) costs of running the bankruptcy entity after declaring bankruptcy,

g) remunerations and briefings for employees\(^6\)

The ensuing difference as a result of such an evaluation and creating provisions is influencing capital (fund) from the evaluation.\(^7\) Updating for the day preceding declaring bankruptcy this capital, alike remained capital is included in basic capital, negative in case of bankrupted entity.

IAS unlike Polish Accountancy Act aren't pointing out stiff principles of the evaluation and presentation of assets under threat of discontinuation of normal business operation. In this scope (bankruptcy) respective of elements of assets and liabilities different IAS regulations apply. For example, in case of evaluation of immaterial and legal value (IAS 38) and of non-cash fixed assets (IAS 16). In light of threatening the continuation of business operation through bankruptcy evaluation for the balance day is being accomplished in the same way as if there was no such risk, that is basing on the price of purchasing, the cost of manufacturing or updated(corrected) value. Assets for, as part of raising funds from the bankrupt’s estate, should be priced according to balance value or fair value reduced for costs, depending which of them is lower. Additionally, in evaluation one should take into consideration the possibility of

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\(^3\) The Accounting Act, dated 29 September 1994 (polish: Ustawa o rachunkowości), Journal of Laws from 2009 yr, No. 152, item 1223, as amended, art. 29 p. 3.

\(^4\) Ustawa o rachunkowości … op. cit., art. 28.

\(^5\) I. Kamor, M Strojek-Filus, Odzwierciedlenie skutków upadłości likwidacyjnej przedsiębiorstwa, Rachunkowość w teorii i praktyce, Szczecin 2011, s 275.

\(^6\) Zasady wyceny bilansowej i ich wpływ na kształt sprawozdań finansowych. Dylematy metodyczne, pod red A. Kuzior, Wyższa Szkoła Biznesu w Dąbrowie Górniczej, Dąbrowa Górnicza 2010, s. 128-129.

\(^7\) Ustawa o rachunkowości …, op. cit., art 29 us 2.
long-lasting loss of value in harmony with IAS 36 regulations. It is acting when redeemable value of a given element of assets is lower than its balance value. In case of entities undergoing liquidation procedures, redeemable value is understood as value possible to get for an element of assets through the sale of given asset. Similarly to Accountancy Act, IAS are imposing an obligation to make provisions in the connection with abandoning the continuation of activities (IAS 37).

Comprehending the bankrupt’s estate and ways of its evaluation. In the moment of declaring bankruptcy assets of the entity are becoming the bankrupt’s estate the sale which in the case of the liquidation bankruptcy will serve fulfilling the claims of creditors. According to regulations Bankruptcy and repair Act a assets of the bankrupt’s estate on the day of the bankruptcy and also purchased by it in the course of bankruptcy procedure. The bankrupt's estate leaves the following out:

a) possessions left out of the execution on the power of regulations of Civil Procedure Code,
b) remuneration in part not being subject to distraint,
c) amount from registered pledges and mortgages.

For the purpose of evaluation of the bankrupt’s estate one should correct assets value resulting from an account books and the financial report for the day preceding declaring bankruptcy i.e. in particular elements which are under pledge or aren't subject to a sale on the power of different agreements and assets present in the bankrupt's In-Company Fund of Social Services. Establishing the composition the bankrupt’s estate in based on assumption that possessed items are indeed its Bankruptcy and Repair Act provides that the sale of enterprise as the whole as best way of liquidation if it isn't possible of its organized part or individual elements. Comprehending the organized part of the enterprise was defined in the law on the income tax from legal persons by pointing out four conditions which must be at the same time fulfilled:

a) a group of material and immaterial elements exists, in it liabilities,
b) this group is organizationally and financially separable,
c) its elements are adapted to the realization of described economic objectives,
d) it would make separate enterprise realizing those tasks.

Before the sale establishing value of a bankrupt's the bankrupt's estate is essential. the official receiver is accomplishing preliminary estimating in one month from the day of declaring bankruptcy. Appropriate estimating can be commissioned to the appointed the official receiver by the judge. Resulting from the lack of attention in the Polish legal system of the notion of licensed experts for evaluation of the enterprise, only authorized experts are acting, where choice of the expert is made on the basis of the recommendation depending on character activities of bankrupt enterprise and composition of its assets.

The bankruptcy law doesn’t contain regulations specifying choice about the method of the evaluation of elements of the bankrupt’s estate. According to KSH in cases out of scope of regulation by Bankruptcy and repair Act, for estimating purposes selling price should be adopted. One should equate it with the price of the net sale or fair value of every element of the estate individually, without referring to the principle of the safe evaluation. In addition, it's essential to evaluate provisions for costs of bankruptcy procedures.

The evaluation for needs of ‘turnover evaluation’ should contain distinguished estimation of both value of the entire enterprise and its organized, separable parts. In spite of imposed methods of the evaluation in this scope in practice three methods are used: Assets methods, income methods and mixed methods.

Assets methods are based on the evaluation of individual elements of assets. Among them there is a method of book value, a method of the corrected worth of net assets, a method of redeemable value and

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8 I. Kamor, M Strojek-Filus, op. cit., s 277-278.
9 Ustawa Prawo upadłościowe i naprawcze …, op. cit., art. 61-63
10 S. Jędrzejewski, Zasady wyceny majątku przedsiębiorstwa w upadłości, Rachunkowość 2009, nr 9, s. 15
11 Law from day 15 of February 1992 r. about the income tax on legal persons (polish: Ustawa o podatku dochodowym od osób prawnych), Journal of Laws from 2000 yr, No. 54, item 654, as amended, art. 4a pt 4.
13 S. Jędrzejewski, op. cit., s. 16-17.
liquidation method. The first is most straight-forward, based on balance evaluation of elements of assets. The book value of the enterprise is being established as the difference amongst the book value of assets as a whole and book value of total debt (long- and short-term). So is equal to the book value of own capital. Additionally, with reference to the Bankruptcy law determining that the purchaser of the bankrupt enterprise is purchasing them in the absence of liabilities and is not held liable for any liabilities of the bankrupt\textsuperscript{15}, experts are establishing the book value of entire enterprise according to book value methods of accounting as equal to the sum of the book value of its assets.

The method of the corrected net worth of assets is exploiting balance value of elements for the day of the evaluation, if it however differs from the market value correction is being made. It concerns value of immaterial and legal and non-cash fixed assets, in the coincidence when the balance evaluation is most often lowered (observe that their value often grow in time grows, e.g. property), materials and payments due (on account of the reality and the possibility of enforcement). Assessing the market value is estimates suit for the type of asset being priced. This method is most commonly used.

Depreciated Replacement Cost Method is being called the cost method, too. It is indicating value of the capital and costs an investor would have to spend on the day of the evaluation in order to reconstruct the identical or very similar enterprise. Most frequent way of establishing its value of the current price of the new object after write-off estimated by an expert.\textsuperscript{16} Cost method is rarely used due to its labour intensity, however is giving the result very similar to the market value. This method of establishing value is used in in businesses operating in branches of low technological progress. Thanks to that a comparability of priced objects and new objects is possible.

The liquidation method is based on receiving sums from the sale of its elements on the market, reduced for costs bound directly with the liquidation. Received value is this way is lower than according to the discussed cost method. It’s assumed that it is minimum worth, below which the expert isn’t allowed to sell a bankrupt's estate as a whole.\textsuperscript{17}

Income methods are pricing the subject on the basis of its ability to generate future profits, in the form of profits, financial flows or dividends, discounted according to the interest rate taking the risk into consideration. And so they are taking into consideration the value of money in time. Due to their universal character they can serve for the evaluation of isolated elements of the property, of their group, the entire enterprise or even a capital group. In the case of bankrupt entities income methods serve the evaluation of long-term investments in forms of shares in other entities. Most popular method is discounted financial flows (DCF). Financial streams for the enterprise (FCFF Free Cash Flow to the Firm) as the operational after deducting interest and the tax enlarged for the depreciation and reduced for the change in the demand for the net working capital profit and the capital spending into fixed assets being established. Value of the enterprise is in harmony with the model:

\[ WP = \sum_{t=1}^{n} \frac{FCFF_t}{(1 + r)^t} + RV \]

where: \( WP \) - value of the enterprise, \( n \) – number of periods, \( FCFF \) - Free Cash Flow to the Firm, \( RV \) - residual value, \( r \) – discount rate.\textsuperscript{18} Residual Value is future value of the enterprise in the final period of estimating, discounted to current value. In the coincidence of companies not continuing activity nominal residual value, before discounting, is equal of nominal liquidation value.\textsuperscript{19} For the discount rate WACC is adopted. Theoretically it is possible to practice also different methods as income as the method of discounted future dividends, the method of discounted, forecast, future net profits of the enterprise but in practice exploiting them is occasional.

Mixed methods use as base element of both assets methods and income methods. The enterprise is most often priced as the weighed average of estimating with chosen assets method and income method. Weights for each of the methods are being established depending on the specificity of entity, its economic

\textsuperscript{15} Ustawa Prawo upadłościowe i naprawcze …, op. cit., art. 313.
\textsuperscript{16} Metody wyceny spółki, perspektywa klienta i inwestora, pod red. M. Panfila i A. Szablewskiego, Poltext, Warszawa 2006, s. 39.
\textsuperscript{17} S. Gurgul, op. cit., s. 585-586.
\textsuperscript{18} Metody wyceny spółki, perspektywa klienta i inwestora, op. cit., s. 41.
\textsuperscript{19} S. Gurgul, op. cit., s. 587.
position and the preference of investors. Depending on the size of weights a so-called Berlin, Swiss, Stuttgart and Anglo-Saxon methods can be distinguished.  

Influence of methods on the evaluation of assets of examined entities. Applying discussed methods was verified as a result of research carried out at a district court Lublin-East Department of the 9th Economic Court, Bankruptcy and arrangement court section. Due to character of bankruptcy suits three enterprises which declared insolvency of the Lublin Province were examined in the last three years i.e. after the essential amendment to regulations of Bankruptcy and repair Law. These enterprises are still undergoing bankruptcy suit, a course of action is liquidation of the property. The first enterprise (X) transport of people. Second company (Y) distribution, transport and storage of foods. Third company (Z) scope of activity was food processing. In the table No. 1 basic statistical data concerning the evaluation of assets of these companies on the basis of reports made out by experts were collected.

Table 1

The carrying amount of assets of the companies surveyed on the day preceding the declaration of bankruptcy and estimation of the value of assets in bankruptcy

<table>
<thead>
<tr>
<th></th>
<th>Firm X</th>
<th>Firm Y</th>
<th>Firm Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td>3 217 220,26</td>
<td>83 048,00</td>
<td>13 019 693,35</td>
</tr>
<tr>
<td>Current assets</td>
<td>1 621 226,63</td>
<td>760 043,45</td>
<td>14 658 195,22</td>
</tr>
<tr>
<td>Total assets</td>
<td>4 838 446,79</td>
<td>843 091,45</td>
<td>27 677 888,57</td>
</tr>
<tr>
<td>Owners equity</td>
<td>-93 963,69</td>
<td>-6 778 333,66</td>
<td>-6 704 722,25</td>
</tr>
<tr>
<td>Liabilities and provisions</td>
<td>4 932 410,48</td>
<td>7 621 425,11</td>
<td>34 382 610,82</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>4 838 446,79</td>
<td>843 091,45</td>
<td>27 677 888,57</td>
</tr>
<tr>
<td>Net value of a bankruptcy-preliminary estimate based on the balance</td>
<td>4 381 709,58</td>
<td>103 971,12</td>
<td>22 456 595,83</td>
</tr>
<tr>
<td>Estimation of a bankruptcy by an expert</td>
<td>9 724 251,53</td>
<td>136 252,62*</td>
<td>47 659 742,70</td>
</tr>
</tbody>
</table>

* the final value can be changed after writing the article, estimation is still in progress Source: own examinations

For estimating the bankrupt's estate by the expert in the case of X-company assets methods and mixed method in evaluating real estate were adopted. Value of the strip of land was established comparatively, the rest of assets was evaluated by use of income method of discounted financial streams from the lease. In the case of chattel cost method was used taking into consideration base value of the given element against the market price and technical condition of given element, index of its usefulness, index of modernity and index of supply of-demand for given asset. In the Y-company current findings of the expert in the scope of the evaluation of fixed assets were carried out with method of the corrected worth of assets basing on established methodology. Z-company due to size of its assets use more tools for evaluation:

a) of immaterial and legal value - was made by the expert basing on entertained approximate apparatus,

b) real estate - according to directive of 21 September 2004 on the methods of evaluation of the fixed assets with comparative and income method,

c) fixed assets - according to the market value not taking into consideration the level of prices of new similar elements to the technical and moral wear and tear the degree of the modernity of the structure and the size of the demand and the supply for the given asset,

d) long-term investments - shares in other entities were estimated with income DCF method,

e) inventories - the evaluation expert exploited approximate apparatus and results of stocktaking

f) short-term payments - due (extra deductions for updating amounts due in over six months , the amount due in low amounts (so-called ends) and amounts due in less than six months with small probability of enforcing.

g) financial resources - in nominal value,

h) accruals - as costs for accounting in next periods valued at zero.

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20 Metody wyceny spółki, perspektywa klienta i inwestora, op. cit., s. 46-48.
Summary. The role of the reliable evaluation of assets in the bankruptcy lawsuit is enormous huge. It is serving for taking the right decisions by the court, the official receiver as well as creditors. It is enabling choice of the best mode of bankruptcy its possible switch to arrangement. It lets control action of the manager of the entity, it is a necessary condition of rational action. Methods of evaluation of assets result from different regulations of the law and are demonstrating very much level of disharmony. The same elements of assets are repeatedly priced but resulting value is different and differences are substantial. One can see it very well in the research findings section where three companies’ evaluation of assets were characterized. The price of property is the best example of the lack of reality of some evaluations of net prices, not higher than purchasing the price or manufacturing the cost with respect to property. The real worth of property is often many times higher than established in this way. The financial report created this way cannot realize the superior principle of the faithful, reliable image. In conclusion there is so much needed separate regulation concerning the evaluation of a bankrupt's estate. If data from balance answered to economic reality, establishing value of the estate by corrections of balance sheet value by way of excluding elements which cannot be included in the bankrupt’s estate would be possible.


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RECOGNITION AND VALUATION OF REVENUES ACCORDING TO THE POLISH ACCOUNTANCY ACT AND IAS/IFRS – COMPARATIVE APPROACH

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The article is devoted to recognition and valuation of revenues in financial report as an important economic category in every enterprise. Differences between principles applying in IAS/IFRS and the Polish Accountancy Act were addressed.

The article is devoted to recognition and valuation of revenues in financial report as an important economic category in every enterprise. Differences between principles applying in IAS/IFRS and the Polish Accountancy Act were addressed.

Introduction. Individuals acting in Republic of Poland, keeping records and making out financial reports obligated to follow the provisions of the Polish laws. Pursuant the Polish Constitution the present system of the hierarchy of sources of law in the Republic of Poland is as follows:
– Constitution is a superior legal document in the Republic of Poland,