DEVELOPMENT AND EVALUATION OF ACCOUNTING HARMONIZATION PROCESSES IN THE CZECH REPUBLIC WITH INTERNATIONAL ACCOUNTING STANDARDS/INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Abstract: This paper presents a current view and an analysis of the issue “Development and Evaluation of Accounting Harmonization Processes in the Czech Republic with International Accounting Standards/International Financial Reporting Standards (IAS/IFRS)”. It analyses and evaluates the Business Accounting Processes in the Czech Republic in conditions of the 21st century. The aim of this paper is to detect the main differences between the Czech accounting system and IAS/IFRS and to recover further way of Czech accounting harmonization according to accounting global trends. 

Key words: Czech accounting, IAS, IFRS, comparison, harmonization, global trends

1. INTRODUCTION

The objective of accounting processes harmonization is the convergence of financial accounting and reporting in order to ensure mutual transparency and comparability of financial reporting across the global financial marketplace. Prime beginning of European harmonization can be seen already with the emergence of the European Economic Community in 1957, harmonization ran through the issue of harmonization directives, which three of them (fourth, seventh and eighth) related to the accounting. The emergence of the European Accounting Directives has brought many positive aspects, nevertheless the financial statements prepared in accordance with them weren’t accepted by the world’s stock exchanges. The European Commission has chosen the path of transition towards IAS/IFRS.

International Accounting Standards were issued since 1973 by the International Accounting Standards Committee (IASC), followed by the IAS Board (IASB) and their main aim is to provide a set of rules and principles used for the mutual convergence of not only national but also international financial reporting (Kovanicová, 1999).

Accounting processes in the Czech Republic are regulated by a separate Law on the Accounting. On this rule of law Implementing Intimations follow, they deal with selected provisions of the Act and provide greater detail of the Act implementation. Detailed accounting procedures and application of accounting policies are included in the Czech Accounting Standards. Since 2005 entities which are trading companies and issuers of securities admitted to trading on a regulated market in a Member State of the EU use IAS/IFRS by EU law adjusted for accounting and preparing their financial statements.

Czech Accounting System and IAS/IFRS are based on different rules and principles and, therefore, among them there are numerous differences. This paper seeks to identify major differences and performs a bilateral comparative analysis. Achieved results may serve as a subject for further harmonization of the Czech Accounting Legislation towards IAS/IFRS.

2. COMPARISON OF THE CZECH RULES OF LAW WITH IAS/IFRS

2.1 The basic conceptual characteristics, principles and objectives of accounting

Significant differences are already evident from the characteristics of the policy and principles on which the two accounting systems are based. Accounting System IAS/IFRS has a sophisticated Conceptual Framework (CF) that is a coherent theoretical basis. Czech Accounting Legislation is based on the Act on Accounting and doesn’t contain the definition of basic concepts and requirements.

The basic principles are already in these two systems identical (actual basis, going concern, prudence, understandability, reliability and comparability). Request for substance over form is, however, understood differently. In terms of IAS/IFRS in evaluation of accounting transactions an emphasis is placed on content and their economic consequences rather than the legal form and strict compliance with the law, as in the Czech Republic. Besides the system of IAS/IFRS defines how to proceed in the case of reporting in hyperinflationary economies and seeks to minimize the influence of high inflation on the distortion of information provided by accounting.

The vast difference can be seen in the case of the objectives of financial accounting regarding requirements of the main financial statements users. In the Czech Republic the main users are financial authorities, banks, investors, suppliers, customers, and for this reason, the aim is to provide information on the status and movement of assets and liabilities and in particular on the income from operations. In the case of Czech companies thus there is more likely to overestimate the costs and reducing profit and tax paid. The main users of financial statements compiled according to IAS/IFRS are investors, therefore they are primarily intended for the exchange and their aim is to provide information about the financial position and business performance.

In the case of valuation bases, there is unity only in the historical cost and revaluation to fair value of selected types of financial assets. In excess IAS/IFRS allows the use of fair value of property, of intangible assets and also the component depreciation or individual understanding of the important parts.

The System of IAS/IFRS is from the beginning the purely accounting system and a range of financial and tax accounting are strictly separated. That is no longer in the Czech Republic,
where financial profit is used as the basis for tax calculating and Czech accounting law is closely linked to the tax system.

2.2 Comparison of selected economic operations

Establishment costs are according to Czech laws intangible fixed asset that is depreciated over five years. In terms of IAS/IFRS they don’t fulfill the expicatum in the CF and are included in the cost of a financial year. To establish the conclusion, even under Czech laws they don’t comply with the definition (they aren’t suitable for further use) and it could be recommended the approach of IAS/IFRS there.

Attitude to research and development (R & D) is in conflict again. Under the Czech laws intangible results of R & D mean only those that were created by the entity for trading, and then those acquired from other parties. Others are directly involved in the costs. Including R & D to intangible assets according to IAS/IFRS is based on the concept of assets in the CF again, i.e. R & D must make demonstrable economic benefits. The comparison shows that the Czech concept is much broader and may lead to overstatement of asset.

Contentious issues relating to the enforcement of property rights in the Czech Republic is a financial leasing, which is still seen as a classic rental. In contrast, in the case of IAS/IFRS it is operated by the principle content over form and the subject of leasing is in asset of those, who actually uses it, the lessee.

According to the Czech approach reserves are intended to cover future expenses that may occur, but it’s not precisely known amount or due date. In terms of IAS/IFRS they can be made only on the basis of some past events, otherwise it is a contingent liability presented in the Annex. In any case, the reserve can not be applied for fixed assets. In this case, it is possible to use the component depreciation (since 2009 also in the Czech Republic), which more accurately shows the fact.

### 3. GLOBAL TRENDS

The harmonization of financial accounting is implemented through the IAS/IFRS and Generally Accepted Accounting Principles (U.S. GAAP), which are harmonized with each other using the convergence process. It is clear that IAS are subject to continual changes and they are in the process of convergence and the development of financial management gradually revises. Within the European Union pioneer in the use of IAS/IFRS is Norway, which requires the preparation of financial statements of all companies in accordance with IFRS since 1st January 2011. Outside the European Union Argentina, Australia, Canada or Japan use IFRS.

Finally, attention is drawn to the important project of IFRS for SMEs (Small and Medium Enterprises), which was released at the June meeting of the IASB in 2009. The purpose of this project was to establish uniform rules for SMEs. Compared to full IAS/IFRS it is in many ways simpler, some parts are completely skipped and where full IAS/IFRS in many cases allows the choice among several solutions, this standard contains only one solution.

### 4. CONCLUSION

The basic difference between Czech rules of law and IAS/IFRS is that Conceptual Framework clearly defining the principles, objectives and main elements of statements lacks in the Czech accounting system. The most important diversity is in understanding the principle of the substance over form and the concept of a fair depiction of reality. Thus it can be concluded that the Accounting System of the IAS/IFRS meets the general requirements imposed on the accounting better and enables international comparability of financial statements across the financial market. This is caused by the fact that the IAS/IFRS were created by independent accounting professionals and since the beginning it was a purely financial system. Therefore that it is necessary to extend the reporting according to IAS/IFRS and thus continue toward the harmonization of the Czech Accounting System to the world-recognized one.

Achieved results may serve as a subject for further harmonization of the Czech Accounting Legislation towards IAS/IFRS.

### 5. REFERENCES


