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## Article

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## The development of accounting and application of IFRS in the Czech Republic

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**Abstract:** This paper focuses on development of rules and practices of accounting and on the application of IFRS in the Czech Republic. The article deals with historical background of the Czech accounting and subsequently with particular features of implementation of IFRS after 1989, when the economic transformation to market economy required adjustments in accounting regulation. This part of our research investigates the relationships between local and global standards of accounting, as well as the impact and consequences and perceived benefits of adopting IFRS in accounting practices. In the recent years one can observe some activity to transformation to IFRS in the field of accounting; this however is not systematic or homogenous, as application of local rules is still required in the domain of taxation. Our analysis of development of accounting regulations in the Czech Republic implies that the majority of Czech companies nowadays have little motivation to switch to international reporting standards especially if there is no further reason for doing so like government requirement, presence of the subject on capital markets or strong business partner - e.g. mother company from abroad the Czech entity to report with the use international format. As to our knowledge, neither the Czech Ministry of Finance nor any other state authority prepares any regulation that would put this international regulation in force unanimously for all public companies.

**Keywords:** Czech Republic, development of accounting, central management, transformation, IFRS

**JEL codes:** M20, M40, G32

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## 1. Introduction

This paper provides analysis of the development of accounting in the Czech Republic and current stage of implementation of IFRS. The motivation of our approach is that knowledge of historical context of accounting is relevant to understanding changes that have taken place in subsequent years.

The article is divided in four parts. The first part covers the period before 1990 and analyses the adjustment and application of unified accounting system in a local context. The united system of socio-economic information was closely associated with central planning and the nature of this system of accounting was developing and adjusting with the evolution of the Czech economy at that period. The second part examines the development of Czech accounting after the year 1989. During this time of economic transformation there were many changes introduced in different parts of economy and economic system including accounting. This change takes place during the time when the international financial reporting standards (IFRS) started to be applied in many economies in the world. The regime of the IFRS application differs and some countries have also chosen slower conversion to IFRS. The third part of our paper deals with IFRS implementation in the Czech Republic and related expectations and consequences. Here our research is based on published literature and it is divided to international publications and Czech publications. The fourth part of our paper summarizes the major findings and provides conclusion.

In the Czech Republic to date there is no unified method or requirement to conversion to the IFRS. However, some (predominantly big) companies use the international standards as and when needed for their business purposes and trading. Nevertheless, there were other significant changes in the economic environment necessary to incorporate to new situation (increasing globalization, development of information technology, influence of the financial markets, cross border cooperation etc.).

Our analysis of development of accounting regulations in the Czech Republic and application of IFRS implies, that the majority of Czech, companies have little motivation to switch or convert to international reporting standards especially if there is no further reason for doing so e.g. government requirement, presence of the company on capital markets or strong business partner - e.g. mother company from abroad requiring the Czech entity to report with the use international standards. Conversely, big companies use the international accounting standards to be able to operate on international markets and communicate with their business partners and investors and also to get easier financing. According to our research 16 per cent of companies used IFRS accounting in 2012 (in the same time with the national GAAP) and 2% of companies use only IFRS. This proportion slowly increases. There is limited and slow conversion process to IFRS.

The perceived benefits of the use of IFRS in Czech conditions are easier communication with international partners and better access to finance on international markets. Nonetheless, Czech companies always have to use the Czech accounting standards for tax purposes.

## **2. Development of the Czech accounting after 1945**

### **2.1 The period of 1946-1951**

The first radical change of the Czech accounting was the law on unified organization of corporate counting - Act No. 116/1946 that was released by the Czechoslovak parliament. The term „corporate counting” covered several areas i.e. costing, budgeting and statistics. The information gained from this system should serve the needs of economic planning of companies and of relevant industries. It should also satisfy tax needs. Concurrently with this laws there were released other laws and regulations, out of which the regulation No. 205/1946 sets out the basic principles of accounting based on the principles of double-entry bookkeeping. The main role of uniformly organized accounting was to prepare the rules for each company to record conditions and changes in its assets and capital, costs, revenues and result in writing and in orderly fashion.

Another role of this unified accounting was to provide the data needed for economic regulation and enterprise planning. At the same time it enabled monitoring of the efficiency of enterprises and their management for tax purposes and provided data for comparison with other companies. This definition understands the accounting from the microeconomic view, where the enterprise was run as a self-financing entity, even though the relation to the needs of central control and the planned development of the whole economy has been emphasized.

In the years 1947 - 1949 the General Secretariat of the Economic Council<sup>1</sup> issued six accounting charts in accordance with the above accounting principles. The charts were used for companies in in major sectors of the economy: industrial enterprises, trade and transport companies and tourism businesses, financial institutions and financial enterprises, companies that provide private (contractual) insurance, craft enterprises and state enterprises. Higher level frameworks were also established for each economic sector. These six accounting charts were issued by a decree and became binding guidelines for financial accounting in relevant sectors. In the case that a business was engaged in several economic sectors, the determining feature for the choice of appropriate accounting chart was the prevailing activity.

The release of these guidelines brought about significant changes, taking in consideration the fact that so far the companies used their own accounting chart,

that they considered appropriate. The detail of reporting was selected by company management in accordance with the needs of particular company. Starting from this point in the Czech accounting history, the business had an obligation to maintain uniform accounts and use only those schemes that have been established in the accounting chart of particular sectors. Out of these prescribed charts, the enterprises determined their own accounting schedule (choice of relevant accounts, which should have material content).

The data in these accounts served as informational basis from which the companies composed their own financial statements at the end of the year - on the balance sheet date. The compiled financial statements consisted of a balance sheet (summarizing the assets and liabilities), and income statement, (which registered the costs and revenues and accounting result, which was the bottom line for the previous accounting year).

General Secretariat of the Economic Council published together with the Ministry of Finance binding guidelines for the individual subsystems of corporate accountancy – e. g. directives, regulations and guidelines relating to company statistics, costing and budgeting, management of stocks, etc. A separate area of accounting has been the cost accounting, which monitored the costs and benefits of internal segments, as well as warehouse accounting, payroll accounting and corporate cost accounting of firms in the breakdown to industrial, commercial, financial, foreign trade, and non-profit entities. The regulations and methods of analysis were linked to accounting, statistics and calculations and were subject to uniform rules. The basic principle of the enterprise management and control was initially the „self-governance“, used in the national enterprise Svit Zlin, s.p. (which was a continuation of management methods introduced by T. Bata – the first republic entrepreneur). The method of self-governance of enterprise embodied the foundation of the socialist enterprise management. The aim of self-governance was the decentralization of responsibilities and splitting powers between economic centres.

The accounting schedule contained a pattern of balance sheets and profit and loss statements with particular specification of the assets and capital and items of income statement - costs and revenues.

To sum up the business accounting in the years 1946 - 1951 was characterized by several basic features:

- The accounting was specified by accounting law (Act No. 116/1946) which enacted the sole use of double-entry bookkeeping. Accounting was based on the theory of double line of accounts - balance-sheet accounts of property and P&L accounts on accounting results.
- The accounting followed a microeconomic view on the company. This view also served for the needs of economic planning, control and tax purposes.
- The accounting restricted the existing freedom in the compilation of chart of

accounts and accounts used (for the reason of unification) - introduction of uniform accounting curriculum and professional accounting curricula for different types of businesses.

- In accordance with the established pattern, the balance sheets and income statement made the foundation for a unified structure for both statements.
- Accounting was organized on two levels - financial accounting for the entire company and management accounting for the different internal departments (production centres).

Despite the fact that this was an entirely new organization of corporate accounting, including the introduction of cost accounting in the business practice, this new treatment quickly moved on and has been successfully implemented in Czech enterprises. The major contribution to this success was mainly the fact that company Svit Zlin established the cost accounting in 1946 one year earlier before the decree came to force as of January 1, 1947. Subsequently, when this type of accounting became compulsory, the company shared experience with other enterprises and their bodies). The drawback of this type of accounting was the unresolved issue of valuation of economic assets and resources.

## **2.2 The period 1951-1966**

In the fifties, in the Czech accounting system began to apply new methods imported from the Soviet Union. The increasing centralization of economic management and development of economic planning changed the nature of accounting and corporate accountancy in comparison to previous adjustments which ceased to be effective due to its microeconomic (in-company) view.

The law that addressed the gap between the business view on accounting and macroeconomic planning was the Act No. 108/1951 on the organization of national economic evidence. National economic evidence was derived from the need for central control and central authorities had a priority in obtaining information. National economic evidence covered three areas - the operational and technical evidence, financial reporting and statistics. Later on, the accounting changed into cost accounting records, and the direction imposed on enterprises an obligation to provide correct, truthful and timely information that was required by central authorities for records, statistics and for the purposes of national economic accounting and planning. The task of accounting evidence was to provide supporting information for the management of individual businesses and other entities and also for the national economy as a whole. Accounting evidence continued to be performed through the system of double-entry bookkeeping and included regular accounts and the financial statements of the organizations. It involved also the resulting calculation of the costs of the production. Afterwards the financial statements of each individual enterprise were used to compile the

summary accounting statements of higher authorities. All accounting records should be complete, accurate, understandable, clear and easy to control.

In the context of accounting evidence, the valuation of economic assets, was now exactly specified: the funds were valued at purchase price, investment and overhauls were valued at their cost of acquisition, inventories included in the balance sheet were also recorded at their costs of acquisition, stocks in current accounts were valued at the planned value of own production, and costs with separate accounting for valuation differences, valuables, cash, receivables, debts, other assets and liabilities (other than above) were reported at their nominal value<sup>2</sup>.

The valuation was based on actual costs, but it was prepared in such a way, that it could provide important information on variances from the planned level. The costs had to be denominated in Czechoslovak crowns. Only in the case that the company had foreign economic relations, the company could use a different currency by recalculating the amount using the exchange rate valid at the date of billing. Current legislation also regulated in great detail inventories of resources, storing of accounting documents and accounting records. In this period the accounts were drawn as a single circuit (instead of dual circuit accounting in the previous period), involving only financial accounting of business as a whole. In this period, the financial accounting statements were understood as documents that provide evidence of the performance of planned tasks. The documents were frequently used for external and internal control of enterprises. The company Chief Accountant was understood as an authority of state control.

The exclusion of cost accounting from the central evidence lead to another practice: companies started to use a special in-company evidence for purposes of management of in-company processes. Accounting evidence thus seemed to be superfluous: registering only the past performance, while not being able to provide timely information on deficiencies and inefficient development, which could otherwise be effectively prevented.

### **2.3 The period 1966-1971**

In this period, the accounting was still regulated by the decree on national economic evidence. But with efforts to reform the economy, there penetrated new elements with features of management (cost) accounting. This type of accounting was designed to provide central management with uniformed information on the reproduction process for the level of national economy. At the same time, it should depict the economic processes in the company so that it can be effectively controlled with the plan and for the improvement of the planning process. For this reason, the accounting process was used for enterprise benchmarking in terms of achieving planned results - information which should have been provided to the accounting system and other segments of national economy evidence. Furthermore

it helped evaluating results of individual responsibility centres within the enterprise in fulfilling the planned goals.

The accounting should also provide a basis for calculations, budgeting, planning of profit generation and its subsequent distribution and create the conditions for monitoring intra-branch relations. At this moment there appeared requirements associated with automation of data processing. Soon it became apparent, however, that these requirements could not be achieved by simple refining and stepwise improvements of current system, but there was a need for a radical reconstruction of the accounting system as a whole.

In 1966, the government forced regulations on uniform costing principles, and depreciation of fixed assets and reproduction financing of capital assets. These regulations brought further deepening as well as further unification of evidence in businesses (to greater details). These procedures used basic the categories of preliminary and final cost calculations. Calculations had to be comparable in substance and in formal presentation. Accounting in enterprises was unified by a single chart of accounts. This replaced the previous sectorial chart of accounts. In this new accounting adjustment the double-circuit accounting was restored. Accounting was divided into the basic circuit and in-house circuit. Basic circuit should provide information on economic performance of the company as a whole in relation to the value indicators of a plan. It served for economic management and for the need of superior bodies. The in-house circuit provided information for monitoring and evaluation of processes in the internal profit centres. These adjustments represented a significant change in the overall regulation of accounting.

Further changes occurred also in the area of valuation. The company performance began to be evaluated according to preliminary calculations, while other assets were valued at purchase prices (historical costs) or reproductive prices (current cost). According to the Act of 1967 on the system of economic information, the accountancy was considered to be a part of new system of information. The system included internal accounting, budgeting, business statistics and preliminary and final calculations (costing). It was similar to the former national economy evidence, but approached the accounting from the perspective of individual business. In the second circuit (in-company accounting), the system included a dual accounting for costs. The costs were primarily broken down by cost types, and secondly by business economic centres (by business activities and by purpose). Profit or loss was included in the period in which it arose. This was in contrast to the previous adjustments according to which the profit was recognized only in the period in which final products were realised. The system of presentation of income statements also changed. In this way, separate income statements were prepared by business centres (based on the cost broken down by profit centres) and by the enterprise as a whole (based on the cost broken down by cost types).



The period of economic information system represented the preliminary stage of a uniform system of socio-economic information, which brought in new provisions of the Law No. 21/1971 Coll. for a uniform system of socio-economic information of enterprises.

## **2.4 The period 1971-1991**

This is a period of so called „uniform system of socio-economic information“, which replaced the previous „system of national economic accounting evidence“. Socio-economic information was prepared by an information system of organizations. It consisted of several parts: accounting, budgeting, statistics, costing, operational records and individually organized records, passports and registry and the information contained therein. This change was based on the Law No. 21/1971 Coll. for a uniform system of socio-economic information, which established scope and tasks to be performed by central authorities. The central body of this activity was the Czech Statistical Office, whose responsibility belonged to monitoring and statistical evaluation of socio-economic development of the economy, the development of the balance of the national economy, and some more specific tasks. Furthermore, the Ministry of Finance had a central role in the areas of accounting, budgeting, costing and financial reporting. An information system organizations (ISO), was created in this way and it formed the legal basis for changes in valuation.

The valuation was performed as follows: Firstly the company assets were evaluated and secondary the valuation for liabilities and equity was derived. The most important financial statements were the balance sheet (providing an overview of economic resources to the balance sheet date) and income statement (providing summary of economic output and its components, which are organized into three sections: Income, Material cost and Distribution of income before tax).

More changes occurred in 1976. Most importantly, the uniform chart of accounts for business organizations was established. This considered financial organizations, financial and insurance institutions, and social and other organizations. It represented the single circuit organization of accounting. The company profits were presented in two ways, the gross and the net method. The gross method was used in monthly income statement. The net method was used at the end of the year in the profit and loss account. The process of value generation and its use was implied by the results of an account Reconciliation of Profit and Loss. The costs were accounted for in subdivisions (Accounting classes). At first primary costs were organized by cost types from the costing standpoint (standpoint of purpose). Furthermore, the separate costs of individual activities were identified which lead to then costs of realised output. By this adjustments, the accounting fulfilled many functions: recording of processes, monitoring of implementation the plan and providing basis for planning. At the same time the accounting results should serve

as material incentives. The main legislation and its content in the above mentioned periods is summarised in the table 1.

**Table 1. Comparison of the development periods of accounting in stages of centrally controlled economy in the Czech Republic**

	1945-51	1951-66	1966-71	1971-91
Legislations	<ul style="list-style-type: none"> <li>▪ Law 116/46 Coll. on an unified organization of corporate counting</li> <li>▪ Government regulation 165/48 Coll. on unified principles of cost calculation</li> <li>▪ Government regulation 1/51 Coll. on uniform valuation principles in corporate accountancy <i>and other</i></li> </ul>	<ul style="list-style-type: none"> <li>▪ Law 108/51 on organization of national economy evidence,</li> <li>▪ Government regulation 30/58, on accounting evidence principles,</li> <li>▪ Decree 65/58 on depreciation of basic funds,</li> <li>▪ Law 99/61 Coll. on state control, statistics, and other fields of national economic evidence <i>and other</i></li> </ul>	<ul style="list-style-type: none"> <li>▪ Government regulation 96/66 Coll. on unified principles of cost calculation,</li> <li>▪ Decree 76/66 Coll. on depreciation,</li> <li>▪ Decree 73/66 Coll. on unified classification of fundamental equipment (PPE), on inventory <i>and other</i></li> </ul>	<ul style="list-style-type: none"> <li>▪ Law 21/1971 Coll. on single set of socio-economic information,</li> <li>▪ Government Decree 153/71 Coll. on information systems of enterprises,</li> <li>▪ Law 154/71 Coll. on accounting,</li> <li>▪ Law 155/71 Coll. on inventory,</li> <li>▪ Decree 162/80 Coll. on the financing of restoring basic funds, <i>and other</i></li> </ul>
Status of accounting	Accounting = part of enterprise counting which includes accounting, cost calculation, budgeting, statistics, with respect to the different character of enterprises process in different sectors	Accounting = part of national economic evidence with emphasis of control and thorough analysis of the state of national economy, strengthening the needs of central management and unification of records	Accounting = part of national economy evidence together with cost calculation, budgeting, statistics, operational and technical evidence and other forms of evidence	Accounting = part of the socio-economic information, in addition to costing, budgeting, statistics, operational records and other forms of evidence, oriented mainly on the process in the enterprises as a base for planning of national economy.

	1945-51	1951-66	1966-71	1971-91
Credential	To meet the needs of economic planning, the special needs of economic sectors as well as the needs of the tax, analytical evaluation and control process efficiency	To be an effective tool for control and contribute to increase the information value for increasing the efficiency of management at all levels.	To provide information about the processes in the enterprise as a whole and internal processes for the business management, analysis and planning as well as for the corporate higher levels. Further unification at all fields of information.	Provide information for evaluation of the company and check compliance with a plan to increase the level of planning activities.

*Source:* Summary analysis based on accounting laws and related regulations published during the period of 1946 – 1988

### 3. Development of the Czech accounting after 1989 and approach to IFRS implementation

Accounting in the Czech Republic in the early years of economic transformation was characterized by Schroll, 1995; Daniel, Suranova and De Beelde, 2001 and Bailey 1995. These papers were looking more closely into accounting and institutional regulation after year 1989, when the centrally planned economy changed into a market economy. Many changes in legal regulation and in economic life were required. The changes were not carried out simultaneously but rather performed step by step. This meant that some former adjustment had been used for some years ahead. The united system of socio-economic information was closely associated with central management and had to be replaced by another adjustment. This transformation was performed in various fields at different time during which there occurred other significant changes in the external economic environment: e.g. increasing globalization, development of information technology, influence of financial markets etc. It was, therefore, necessary to incorporate them to new adaptations. There was among other things, the growing desire for global accounting harmonization.

The first radical reform in the area of Czech accounting was a redesigned Accounting Act of 1991 which became valid by January 1, 1993. This Accounting Act earmarked the accounting system of socio-economic information as a separate part and closed area of specific purpose, for which the legal and economic environment has not yet been sufficiently prepared. The transformation was aimed

at highlighting the importance of financial accounting as the tool for indication of the financial position especially for private enterprises. It provided information for external users, which at that time were mainly banks. At that time restoring of the Prague Stock Exchange was under way. Thus the prepared adjustments partially reflected the needs of capital market. Neither the management of companies and the capital market and investors, nor business partners were adequately prepared to use the accounting information effectively. The act No. 21/1971 on the system of socio-economic information in the adaptation of 1989 and other related legislation was cancelled in 2003. The Government Regulation No. 136/89 on the information system of organizations (i. e. also on accounting) regulated accounting by the new Accounting Act coming in force in 1993 but effectively only in 2003, in connection with the next change of the act on accounting (details of which are in the next paragraph).

The new Accounting Act was already modified by several legislative standards prior to its adoption: FMF Decree 23/1990 on Accounting, which regulated the system of updating accounting techniques. This, however, did not address the new status of accounting. Separate changes were brought in in the form of Decree 21/1990 in the field of calculations, but other branches of economic information, such as budgeting, operational records were not addressed. Statistics was regulated by the Statistical Service in 1995.

The basis for accounting adjustments in the new Act on Accounting were grounded on continental accounting system, the most comparable approaches were applied those in France and Germany. The objective of accounting was to provide a true and fair view of the financial situation and the economic results of companies and their assets and financial position (to a certain date), the result (for a certain period of time) and the success of financial management. The Act further determined the extent and method of accounting. It established the requirements for its conclusiveness, and determined when and who should keep the accounts and established the obligation to audit financial statements. Some more detailed provisions of the Act were developed and refined by further legislative regulations.

Managerial accounting was being developed step by step on the basis of experience of in-house and cost accounting (and based on experience from the use of cost accounting from the post-war period).

### **3.1 Significant changes in the law on Accounting after 1993**

The first important and extensive change to the original text of the Accounting Act was the adjustment by the Act 353/2001 Sb., changing the Act No. 563/1991 on Accounting, as amended, and certain other Acts. This new formulated more precisely the subject of accounting. It emphasized the accrual basis of accounting,

it also established the obligation to comply with the chart of accounts, classification and identification of items in financial statements, content of the accounting books, used accounting procedures in the preparation of individual and consolidated financial statements in accordance with the implementing regulations (decrees). It characterized the accounting record, defined the requirement of true and fair view and ways of its implementation, as well as the accuracy and completeness of the accounts and content of the financial statements. It distinguished and defined in details the conditions for preparation of financial statements in full and the simplified formats. It sets the conditions for audited financial statements and the content of the annual report. The conditions and procedure of preparing the consolidated financial statements and consolidation methods were defined in detail. In the area of valuation of assets and liabilities the act established the concept of fair value, unifying the valuation of assets at purchase (acquisition price), specified the conditions for inventory of asset and liabilities and solved the problem of archiving accounting records. This was provided in summary, in terms of refinement and adjustment to the actual method of accounting, as well as for those areas that are related to the accounting to the position in a market economy.

The second major change was the adjustment made by the Act No. 437/2003 Coll. Amending the Act No. 563/1991 on accounting, as amended, and other related Acts. For the first time in history the new text accepts keeping of accounts in accordance with European Community law. The Act more precisely defines the concept of business entity, sets the conditions for the obligation to keep accounting records, specifies the period over which the record keeping is compulsory, and cancels cash-accounting (simple accounting) as a kind of accounting. For the first time the regulation also sets out an obligation to prepare the consolidated financial statements pursuing the International Financial Reporting Standards adopted by European communities for commercial companies with securities listed on regulated securities markets in the Member States of the European Union. It also introduced the use of fixed exchange rates for conversion of foreign currency during the accounting period.

The third important change brought by the Act No. 410/2010 Coll. the Act on Accounting. Apart from other amendments was clarification and application of international accounting standards for accounting and financial statements. It has also clarified the situations where the obligation to use IAS (international accounting standards) was changing over consecutive accounting periods, i.e. trading securities on organized markets, during the accounting period, before its beginning and after its termination.

Finally, it further clarified the conditions and procedures for consolidation of financial statements. The Act 586/1992 Coll., Income Tax Law as amended valid as of January 1, 2011, however, stipulated that the tax base should be established

from the results according to procedures laid down by Decree No. 500, 501 and 502:

„To determine the tax base is based on a) the result (profit or loss), and always without the influence of international accounting standards, for taxpayers who keep accounting records. A taxpayer who prepares the financial statements in accordance with International Accounting Standards, for the purposes of this Act shall apply to determine profit by special legislation. (i.e. Decree No. 500, 501, 502). b) The difference between revenues and expenditures for taxpayers who do not keep accounts.”<sup>3</sup>

The above mentioned amendments to the Act brought in other aspects of implementation of international accounting standards into the context of Czech accounting. Nevertheless, they also reflected other changes in the economic and legal environment, e.g. such as the expansion of the capital market (the adoption of the Act on capital markets business), the need to consolidate accounts under different conditions, and the adoption of the Bankruptcy and Settlement Act in 2008. They also created new conditions for state accounting (since 2010).

**Table 2. Summary of changes in the law 563/1991 Coll., Accounting Act**

	<b>Subject Matter</b>
117/1994	Amendment of scale of accounting in relation to the parties and political movements
227/1997	Amendment of scale of accounting in relation to foundations
492/2000	<ul style="list-style-type: none"> <li>▪ Changing the scope of the Act,</li> <li>▪ redefinition of accounting entities,</li> <li>▪ setting up more accurate method of accounting: implementation of</li> <li>▪ accounting year, refining of opening and closing the books, the concept of the balance sheet date,</li> <li>▪ ways of presentation of financial statements</li> </ul>
353/2001	Law on Amending the Accounting Act: <ul style="list-style-type: none"> <li>▪ General chart of accounts,</li> <li>▪ valuation – two phases (acquisition and possession),               <ul style="list-style-type: none"> <li>– acquisition prices of all purchased assets,</li> <li>– fair value for part of financial assets,</li> </ul> </li> <li>▪ full range and simplified range of statements,</li> <li>▪ segmentation,</li> <li>▪ IAS are allowed (accounting entities can use them the next to Czech standards)</li> </ul>
437/2003	Law on Amending the Accounting Act: <ul style="list-style-type: none"> <li>▪ Link to the 4th EU Directive and the provisions of a directive of the EU (European Communities),</li> <li>▪ abolition of simple accounting</li> <li>▪ specification of responsibilities in keeping accounting books,</li> </ul>

	Subject Matter
	<ul style="list-style-type: none"> <li>▪ more detailed specification of obligation to use IAS for listed companies,</li> <li>▪ regulates the method of preparation of consolidated accounts also in connection with IAS</li> <li>▪ regulates the conditions for an audit of financial statements</li> <li>▪ regulates the content of the annual report and its publication,</li> <li>▪ technical aspects of accounting</li> </ul>
Law 438/2003 on amendment of the Income Tax Law	Act of January 1, 2004 states, the tax base is necessary for business, who keep accounting records and financial statements in accordance with IAS, establish according to regulations 500, 501,502) .
410/2010	Law Amending the Law on Accounting <ul style="list-style-type: none"> <li>▪ Clarification of terms of use of IAS for accounting and drawing financial statements,</li> <li>▪ further clarification of the procedures for preparation of the consolidated financial statements and responsibilities in the implementation of consolidation,</li> <li>▪ detailed characteristics of administrative offenses.</li> </ul>
239/2012	Changes in the Accounting Act in connection to the next stage of preparing the state accounting, further details on process of keeping and maintenance of inventories

*Source:* Summary analysis based on accounting laws and related regulations during the period of 1991-2012

### 3.2 IFRS application in Czech accounting

A new accounting system was introduced on 1 January 1993. It has been regarded as a system suited to the market economy. It is based on the principle of providing appropriate information to company financial managers to enable them to make financial decisions (Schroll, 1995).

The provision of the 'true and fair view' has been declared as the leading principle. Only financial accounting is regulated in this new system, cost data are standardized only when subject to transfer from the cost ('internal') accounting records to financial accounting records.

The standardization of financial accounting was established on the following levels:

- Entities, that are required to keep the financial accounting and prepare the financial statements were defined,
- The obligatory structures for the financial statements (balance sheet and the profit and loss account) were determined in the two formats. Expanded version for big and medium sized enterprises and the shortened version for small enterprises (with respect of the 4th EU directive),

- The financial statements are defined with regard to the specification of the process in various sectors the economy (entrepreneurs, banks, insurance companies, non-profit seeking organization, organizations in public sector, other organizations),
- The content of the cash flow statement and the appendix to the financial statements was determined. The cash flow statement is based on the standard proposed by the International Accounting Standards Committee (IASC).

At present, the system of financial accounting incorporates the system of IAS/IFRS in several areas:

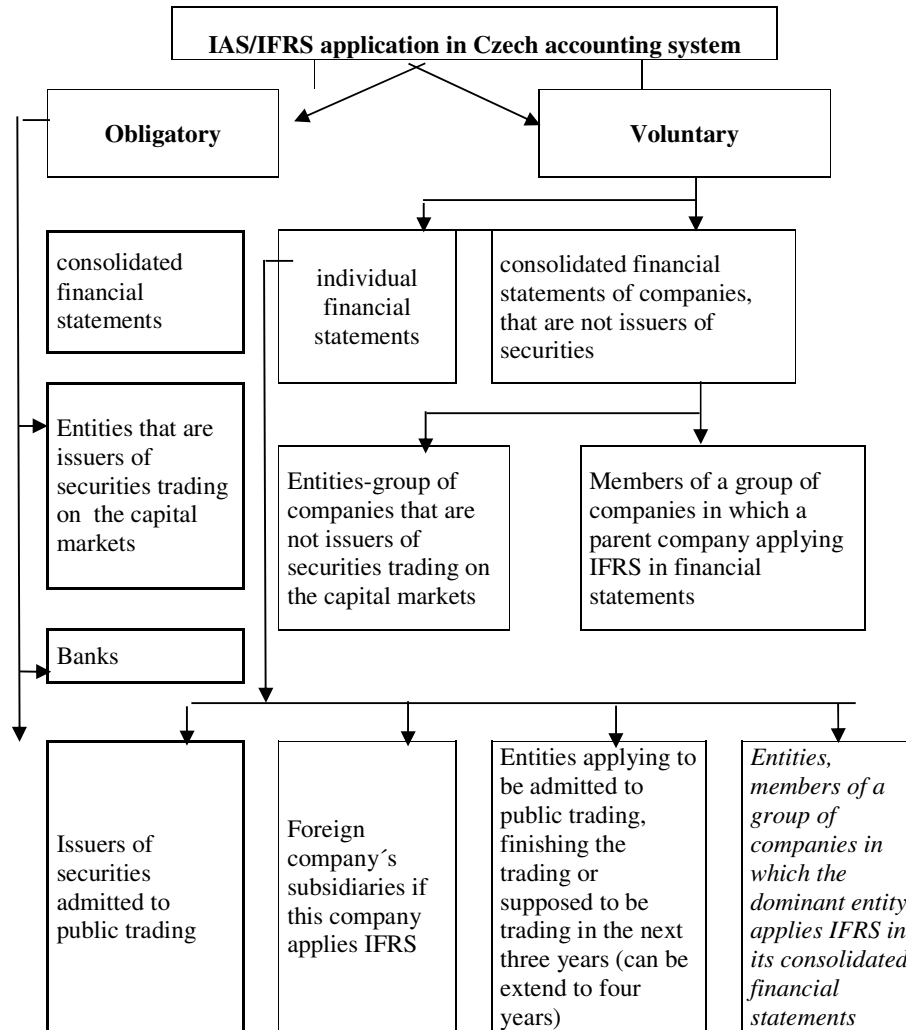
- Definition of the content of financial statements (partly, according to the 4th directive)
- In the area of valuation:
  - **the valuation of assets** acquired by purchase (the purchase price), but the ancillary costs are not precisely defined – the list of costs is contained in the Law on Income Tax (IAS 16)
  - **The two stages of valuation** are distinguished (the moment of transaction and the moment of valuation at the balance sheet date) (IAS 16),
  - **goodwill reporting** (in accordance with IAS 38)
  - **fair value measurement** – for financial instruments/securities held for trading (more extensive use in conditions of financial institutions and insurance companies are regulated by separate decree) – IAS 32,39, IFRS 9
- In the area of depreciation of fixed assets (IAS 16) – accounting depreciation is provided under the terms of the business entity to the contrary of tax determined depreciation. However, there is an obligation to determine the tax base for taxation purposes in accordance with tax regulations).
- Component depreciation
- Corrections of accounting entries (partially, according to IAS 8)
- The basic standards concerning disclosures in the appendix to financial statements (IAS 1, 3, 4, 10)
- Special parts in the area of revenue recognition (partially, IAS 18, 11),
- Some special parts of consolidation process (IAS 3, 24) and business combination (IAS 22).

Besides that the whole new accounting system is partly based on internationally accepted principles, such as the Fourth and Seventh European Directives and international accounting standards. However, some of pre-1989 measures that continued in the new laws can be identified (Seal et al., 1995). This is similar - as in other continental European countries - there still remains a close link between accounting and tax.



The implementation of IAS/IFRS into the Czech national accounting system can be considered in two aspects: the first: how many situations in the reporting of financial situation and results are settled in national standard in compliance with the settlement of IFRS – it was analysed in the previous part, and the second: how many entities in the national economy use the system IAS/IFRS for the compilation of the financial statements (obligatory and voluntarily). The second view on the Czech national accounting space is presented in the next Figure 1.

**Figure 1. IAS/IFRS in the financial reporting system in the Czech Republic**



At present time, there is a group of entities that are issuers of the securities trading on the capital markets that use the system of IAS/IFRS on the obligatory basis. The second group is formed by entities that are a member of financial group, where the parent company (usually foreign company) is the issuer of the securities trading on the capital market and prepare consolidated financial statement in accordance with IAS/IFRS. According the latest change in the legislation these companies can use the IAS/IFRS also for individual financial statement. The third group is formed by the entities that used the system of IAS/IFRS on voluntarily bases for compilation of individual financial statement. These companies are allowed to use IAS/IFRS for settlement of the financial statements in the situation after or before they start to offer the securities on capital market or between close and next issue of securities. The tax base, however, must be calculated in accordance of Czech accounting decree and standards.

#### **4. IFRS implementation - expectations and consequences**

It has been expected that IFRS implementation should ease accounting harmonisation pursued according to the Fourth and Seventh EC directives and therefore should improve conditions for international trade and flow of capital. The investors, decision-makers and managers needed to understand the accounting information from other countries to have necessary information about productivity and attractiveness of future prospect of each individual firm to assess the present investment alternative. The goal was thus established – to harmonize the accounting standards and procedures used to enable more fluent information flow. In the Czech Republic the expectations were similar on the part of companies and capital markets.

##### **4.1 International publications**

An indicative review of major studies on the IFRS in the Czech Republic is summarized below. This is by no means list of all research studies that has been produced on the IFRS problem. It is rather symptomatic sample of studies showing the major directions in which the research was oriented.

Sucher and Jindrichovska (2004) presented an empirical study of the implementation process for international financial reporting standards (IFRS). The study was based on interviews with important groups that participated on IFRS adoption. The Czech Republic was one of the accession countries. The study is based upon a review of the legislation, institutional framework and context, and it is also drawing upon interviews with Czech companies required to prepare IFRS accounts, auditors, bankers and institutional players in the Czech Republic. The paper highlights the key issues arising with the move to the implementation of IFRS for group of companies and other major enterprises. The authors characterize

the current situation in the Czech Republic concerning the enabling legislation for companies to prepare IFRS and the state of preparedness amongst the relevant enterprises.

Further study from the same year by Larson and Street (2004) examines the progress and perceived impediments to convergence in 17 European countries including the 10 new EU members. The move was initiated by the requirement to publish consolidated statements in accordance with IFRS for listed companies. Among others the study finds that the Czech Republic will require all listed companies to apply IFRS in consolidated and individual financial statements for 2005 accounts and non-listed companies will be allowed, but not required, to use IFRS for consolidated accounts. Non-listed companies will still be required to use Czech GAAP for individual accounts. At the same time, early adoption of IFRS is permitted where applicable.

Bonaci *et al.* (2008) analysed the differences and similarities between the regulation of financial instruments in Romania and the Czech Republic. The results show a high level of similarities between the two national set of GAAPs and IFRS/IAS. The analysis of the current development stage of the Czech and Romanian capital markets do not support the necessity of such a high degree of similarity.

Strouhal and Žďárská (2008) analysed the impact the globalization to the assembling of financial reports and to determining the trading income of supranational corporations. From the year 2005 all public listed companies in the Czech Republic should report under IFRS framework, while the non-listed companies still report under Czech accounting principles. This duality may lead to discrepancies with respect to the identification of free cash flow, which is considered the basic information required for the income-based business valuation.

In their comparative study Mackevicius *et al.* (2008) indicate that EU motivates the regulation by referring to the enhanced international comparability and transparency of financial statements. In the Czech Republic, the most significant problem of financial statements and items shown is the complete inconsistency of the measurement bases and the application of the historical (acquisition) cost, fair value and present value. The responsibility for entity's financial statements shall rest upon the head of the entity.

Nerudova and Bohusova (2008) analysed the situation of Czech SMEs based on the questionnaire research and claim that as the most important obstacles in accounting can be considered different national accounting and tax systems. This situation calls for compliance costs of taxation for small and medium sized enterprises (SMEs). The results of the empirical research have shown that there is negative relation between the size of the enterprise and the amount of compliance costs of taxation and also that those micro enterprises in the Czech Republic are less involved in cross-border activities in comparison with the small and medium

enterprises. In that connection, the paper discusses the possibility of introduction of IFRS for SME in the Czech enterprises. Based on the results of empirical research some problems could arise with IFRS for SME application. The main problem seems to be the suitability of IFRS for all types of SMEs (the typical enterprise, which IFRS for SME are intended for, is the enterprise with approximately 50 employees). Based on the questionnaires, respondents are highly interested in the costs and benefits IFRS application for SMEs. The first application of IFRS for SME in the Czech SME will be expensive and time demanding, due to the different philosophy, principles and methodology of recording used in IFRS for SME. The foreseen benefits should exceed the costs of implementation of IFRS in SMEs.

The study of Strouhal (2009) places important role on the information provided through financial reporting within the mechanisms of capital markets, along with their other components. The performed analysis, realized on national accounting regulation reveals a high degree of similarities with the international referential. This imposes the focus on the significance.

In their research study Strouhal *et al.* (2009) claim, that conceptual solution of valuation issues need not to come out from current economic situation and it is impossible to change this concept every time when economic conditions tend to change. Unsystematically changes of valuation concepts may conduce to instability of economic system. This paper performs a comparative analysis of reporting under national standards of Czech Republic and International Financial Reporting Standards with the special focus on small-and-medium sized enterprises (SMEs are a backbone of the European economy. In the Czech Republic SMEs participate in employment with 61.52% and in accounting added value with 54.57 %. SMEs represent 99.83 % of the total number of active business entities). The results show significant compatibility of reporting under both regulations.

Procházka (2010) asserts that the implementation process of the IFRS into the EU becomes “communautaire” is a radical change. The impact on preparers and users is more significant. It turned out that the IFRS adoption has been leading to a greater interconnection between financial and internal reporting in the context of the Czech accounting practice. In fact, the IFRS carry out the function of internal management accounting allowing better internal performance evaluation, in many companies.

Struhařová *et al.* (2010) summarised the opportunities and challenges that IFRS brings to Czech companies. Here, the usage of International Financial Reporting Standards (IFRS) is limited. Only listed entities are required to prepare its consolidated financial statements in line with IFRS. In 2009, this regulation concerned only 6% of Czech Companies, which prepared their consolidated statements according to IFRS.

The aim of the article by Mullerova *et al.* (2010) is to analyse problem areas of reporting according to IFRS in the Czech SMEs and to compare their results with the accounting practice in companies which report according to IFRS. Here, the authors state that the information disclosed according to full IFRS standards is sometimes too superfluous for users of financial statements of Small Mediums – sized Enterprises. At the same time the other hand, the cost of its full compliance very often exceed its perceived contributions. Another problem, which is specific for the Czech Republic is that the national legislation does not allow specifying the income tax base from the statements prepared according to IFRS standards and thus the companies have to prepare the statements according to Czech legislation in parallel. This represents a tremendous administrative burden.

The group of authors of Paseková *et al.* (2010) showed that SMEs in the Czech Republic are not prepared for reporting under IFRS and any obligation for adoption of IFRS for SMEs would be considered an unnecessary burden. The reason is, that Czech, Slovak, Polish and Ukrainian tax legislation does not accept accounting result calculated according to IFRS as a basis for income tax calculation and thus reporting according to IFRS is always something extra.

The main aim of article written by Palka and Svitakova (2011) was to present convenient methodology for relevant comparison of Czech accounting systems and IFRS through the pyramidal breakdown of ROE and disclose the influence of quantification analysis. The paper deals with the topic of international harmonization processes in accounting. The authors attempt to suggest convenient system for comparison of the results of chosen financial ratios, which were calculated according to the rules of IFRS for SMEs and according to Czech Accounting Standards (CAS). The authors present a comparative case study based on real data of a selected Czech company. The impact of a transfer from the Czech accounting statements to financial statements according to the IFRS for SMEs is analysed. The researchers in this case study did not find significant differences between CAS and the application of IFRS for SMEs. The authors also proposed possible methodology for transition facilitating the conversion process from Czech to IFRS format for SMEs.

Steker and Otrusínová (2011) assert that the Czech Republic is considered as a certain pioneer in preparing the consolidated financial statements for the entire state, having almost zero experience from abroad. The reform should be completed until 2014. The authors identify significant differences in the preparation of consolidated financial statements under the Czech legislation and in accordance with IFRS. One of the objectives of on-going reform is to provide conditions for increasing the credibility of financial statements for the Czech Republic, with regards to both the European Union and international entities, including foreign investors.

In 2011 Strouhal has published an edited volume dealing with harmonization of financial reporting on SME's in CEE region (Strouhal, 2011). The edited book presents issues and problems of SME accounting harmonization from the viewpoint of several countries - Czech Republic, Romania and Estonia. The countries face similar issues but the particularities are determined by cultural and legal background of each country.

Kubíčková and Jindrichovska (2013) identified which changes in financial indicators are caused by the IFRS adoption in the Czech firms. The authors focused on confirmation of different results and their impact of IFRS. The authors claim, that the impact is not homogeneous due to different country backgrounds and different socio-cultural traditions. It has been found that the impact of these changes on values of financial ratios is more pronounced in countries of Southern Europe but to lesser extent in Turkey. The impact is less pronounced in the countries of Northern and Central Europe and negative impact of IFRS adoption can be observed in Hungary.

Jindrichovska and Kubíčková (2014) analyse the impact of new International Financial Reporting Standards (IFRS) on selected financial ratios. They claim that the differences concern the classification, content, and valuation of accounting items. There are significant changes resulting in different values of individual items of financial statements according to the Czech standards and international standards. Namely in ratios return on equity (ROE), return on assets (ROA), debt ratio and financial leverage). The transition to the IFRS system impacts on the values of key financial ratios and thus influences the assessment of the financial situations of firms, albeit it could not be proved that these differences are statistically significant.

#### 4.2 Czech publications

Generally speaking the research in the Czech Republic was concentrating on three main areas.

- (1) **Informational publication, on the IFRS principles.** These research studies were interpreting principles in national language and correspond to national Financial Reporting Principles (interpretation is based on comparisons). The authors are Hinke (2006); Kubickova (2006); Bohusova (2008); Krupova *et al.* (2009); Kriz (2009); Sladkova (2009; 2013); Dvorakova (2012; 2014), and Pasekova (2012).
- (2) The second relatively large group of publication was dealing with **some particular reporting feature**. The authors dealing with this problem are Prochazka (2012; 2013) dealing with the whither concept of **profit**. Bohusova and Svoboda (2010) and Bohusova (2011) examined the issue of

**intangible assets.** The concept of **fair value** was investigated by Dvorakova (2011) and Strouhal *et al.* (2013). The place and development of **capital market** was considered by Jindrichovska (2011) and Horvatova and Pilch (2013a, b).

- (3) The third group is represented by **published outputs of research projects.** These papers that focussed on IFRS application issues in the national accounting system or in a multinational environment. In here belong the studies on **application of IFRS for SMEs** by Bohusova *et al.* (2013); Bohusova and Svoboda (2013); Dvorakova (2012); Müllerova *et al.* (2010); Nerudova (2009) and Zarova (2009). Further studies were concentrating on **the effects of the IFRS application in the Czech Republic and the EU.** Here the main authors are Bohusova (2011); Dvorakova (2013a,b) Hinke and Zborkova (2012); Strouhal *et al.* (2013); and Zarova (2009; 2013a,b). Further region of investigation was the area of **cultural differences and their impact on the IFRS usage.** The main authors were: Jindrichovska *et al.* (2013; 2014). The next group of studies dealt with **the impact of f IFRS on assessment of financial situation:** Kubickova (2009); Jindrichovska and Kubickova (2012); Hinke (2013) and Strouhal and Dvorakova (2013). The last area of interest was the relation and comparison of **national accounting regulations and IFRS.** This was represented by the authors: Mejzlik and Zarova (2009); Bohusova (2010); Zarova *et al.* (2010); and Zarova (2013a, 2013b).

## 5. Summary and conclusion

As it regards the previous development as a background for introducing international reporting standards and current state of the situation with introducing the IFRS or gradual conversion to the international standards in the Czech Republic the situation can be summarized as follows:

There are some elements of IAS/IFRS that are implemented in the Czech accounting regulations, namely:

- definition of the content of financial statements (in part) and annual reports;
- in valuation:
  - the purchase price for the valuation of assets acquired by purchase, ancillary costs are not precisely defined – the list of costs is contained in the Law on Income Tax;
  - distinguishing between two stages of valuation (moment of transaction and moment of valuation on the balance sheet date);
  - fair value – for financial instruments / securities held for trading, more extensive use in conditions of financial institutions and insurance companies (governed by separate decree);

- depreciation of fixed assets is provided under the terms of the business entity (accounting depreciation) – however, there is also an obligation to determine the tax base in accordance with tax regulations;
- component depreciation;
- corrections of accounting entries (but not fully in accordance with IAS 8).

As it concerns further development of introducing the IFRS as equally acceptable accounting standards into the Czech Republic: the Czech Ministry of Finance did not set up any plan (or action plan) to implement the IAS and IFRS to Czech accounting as compulsory accounting system. Neither is there any system or process of convergence to IAS/IFRS from the side of Czech Accounting.

Therefore, to sum up, gradual and more or less individual and spontaneous changes are realized prompted by the economic situation of individual companies and realized on the basis of external stimuli. The need to use the international standards also comes from the needs of economic practice based on obligations arising from participation in the EU markets - e.g. rules and regulations of application of the EU IAS / IFRS on capital markets or strong links with international companies requiring application of such regulations. Different way of IFRS adoption concerns the small and medium sized companies, which can adopt the IFRS for SMEs

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Appendix 1. Summary of the most relevant research papers related to IFRS implementation in the Czech

Paper	Year of the study	Main results	Costs and benefits	Level of compliance	Factors affecting the level of compliance	Transparency	Value relevance
The analyses of the comparability of selected financial items according to Czech regulations and IFRS							
Sucher and Jindrichovska (2004)	2004	Empirical paper, which presents a study of the implementation process for international financial reporting standards (IFRS) in one of the accession countries, the Czech Republic. Currently, individual legal entities will not have to prepare IFRS financial statements, but will follow Czech accounting. There is a small group of large listed Czech companies, usually funded by some level of overseas finance, which have already commenced preparing IFRS financial statements.	Comparability of financial statements and better access to capital.	moderate	The processes of harmonization of accounting standards adopted at the level of European Union	Not specified	Not specified
Hrdy and Horova (2007)	2007	This concerns the management control and was conducted on a sample of Czech companies. More than a half of companies consider criteria of performance measurement. Companies are able to use different types of investment criteria (65.6%), but a lot of companies don't consider the actual effects of investments (41.1%). The time horizon of processing the system of plans and budgets in the companies is usually one year (78.9%). Most of the companies don't consider rolling budget principles (73.3%).	Not presented	high	Users of financial statements and system of corporate governance	Not specified	Not specified
Strouhal <i>et al.</i> (2009)	2009	This paper performs a comparative analysis of reporting under national standards of Czech	For support and development of	average	Users of financial statements, and	Not specified	Not specified

Paper	Year of the study	Main results	Costs and benefits	Level of compliance	Factors affecting the level of compliance	Transparency	Value relevance
The analyses of the comparability of selected financial items according to Czech regulations and IFRS							
Pasekova <i>et al.</i> (2010)	2010	Republic and International Financial Reporting Standards with the special focus on small-and-medium sized enterprises (SMEs are a backbone of the European economy. In the Czech Republic SMEs participate in employment with 61.52% and in accounting added value with 54.57 %. SMEs represent 99.83 % of the total number of active business entities). The results show significant compatibility of reporting under both reporting rules. Conceptual solution of valuation issues do not have to come out from current economic situation. As is impossible to change this concept every time when economic conditions change. Nonsystematic changes of valuation concepts may lead to instability of economic system.	businesses in the European Union there is now a new definition of small and medium-sized enterprises (three major criteria: the number of employees, annual turnover in millions EUR and total value of assets in millions EUR.)		corporate governance system		
		SMEs in the Czech Republic are not prepared for IFRS reporting and any obligation to the adoption of IFRS for SMEs would be considered an unnecessary burden. Czech, Slovak, Polish and Ukrainian tax legislation does not accept accounting profit calculated according to IFRS as a basis for income tax and thus reporting according to IFRS is extra burden.	IFRS for SMEs might be considered as a best tool of accounting harmonization.	high	Big 4 auditors, company size, industry	Not specified	Greater according to IFRS



## The development of accounting and application of IFRS in the Czech Republic

Paper	Year of the study	Main results	Costs and benefits	Level of compliance	Factors affecting the level of compliance	Transparency	Value relevance
The analyses of the comparability of selected financial items according to Czech regulations and IFRS							
Struharova <i>et al.</i> (2010)	2010	Authors summarised the opportunities and challenges that IFRS brings to the Czech companies. In the Czech Republic the usage of (IFRS) is limited. Only listed entities are required to prepare its consolidated financial statements in line with IFRS. (in 2009 it was prepared only by 6% of Czech Companies)	Challenges and opportunities represented by shift to IFRS in CR and the possible adoption or convergence plans and their impact on the Czech companies. IFRS can bring international comparability of financial statements.	high	Big 4 auditors	Greater with the use of IFRS	Not specified
Steker and Otrusínová (2011)	2011	At present, significant differences in the preparation of consolidated financial statements under the Czech legislation and in accordance with IFRS still remain. One of the objectives of on-going transformation is to provide conditions for increasing the credibility of financial statements for the Czech Republic, both towards the European Union and international entities, including foreign investors. The Czech Republic is considered a certain pioneer in preparing the consolidated financial statements for the entire state, having almost zero experience from abroad. The reform should be completed until 2014.	Solving problems associated with the implementation of state accounting and drawing up the consolidated financial statements according to IFRS for the Czech Republic.	high	The scale of the activity of a company	Greater with the use of IFRS	Greater with the use of IFRS
The impact of IFRS implementation on financial ratios							

Paper	Year of the study	Main results	Costs and benefits	Level of compliance	Factors affecting the level of compliance	Transparency	Value relevance
The analyses of the comparability of selected financial items according to Czech regulations and IFRS							
Altintas and Yilmaz (2010)	2010	This study clearly demonstrates that the accounting profession in a country has been significantly affected by the judicial system of that country. In addition, the accounting and auditing environment is divided into two separate professions in the legal law countries, whereas in the common law countries the profession is mainly organized under one title. Czech law was traditionally based on Roman law. The country's main external auditing professional organizations are the Chamber of Auditors of the Czech Republic and the Union of Accountants of the Czech Republic. Prior to 1989, there was no established profession of auditors or an association of auditors.	In some legal law countries, the professional bodies and other interest groups make to simplify the profession and reduce the number of titles in the countries. In the future, the accounting designations will be reduced to one single designation but some other designations will exist for less experienced professionals, as in the common law countries.	average	Users of financial statements, and corporate governance system	Not specified	Not specified
Jindrichovska and Kubickova (2014)	2014	The paper analyses the impact of new International Financial Reporting Standards (IFRS). The differences concern the classification, content, and valuation of accounting items. There are significant changes resulting in different values of individual items of financial statements (return on equity (ROE), return on assets (ROA), debt ratio, financial leverage). The transition to the IFRS system	The changes in values of financial indicators (the changes of profitability ratios) the most commonly used indicators for many purposes including assessment of internal firms' performance.	high	Financial statements from the point of view of the investors.	Greater with the use of IFRS	Greater with the use of IFRS

Paper	Year of the study	Main results	Costs and benefits	Level of compliance	Factors affecting the level of compliance	Transparency	Value relevance
The analyses of the comparability of selected financial items according to Czech regulations and IFRS							
		impacts on the values of key financial ratios and thus influences the assessment of the financial situations of firms, albeit it could not be proved that these differences are statistically significant.					
The effectiveness of and response of capital markets to IFRS implementation							
Strouhal and Zdarska (2007)	2007	The authors analysed impact globalization on the composition of financial reports and on the determination of trading income of supranational corporations. From the year 2005 the listed companies in the Czech Republic should publish reports under IFRS framework, while the non-listed companies still report under Czech accounting principles. This duality may lead to discrepancies with respect to the identification of free cash flow, which is considered the basic information required for the income-based business valuation.	Changes in market prices signal good news and bad news about future risky outcomes, there is no evidence of asymmetry in the Czech market in accounting for such risks.	high	The effectiveness of capital markets, easy access to information and its efficient processing	Not specified	Slightly larger under IFRS
Bonaci <i>et al.</i> (2008)	2008	IFRS are not considered as an equivalent method of structuring statements in the Czech Republic, the Accountancy Act establishes a legal obligation for certain accounting units to use the IFRS within the framework of financial statements. It was identified and organized within five main topics (1) financial assets;(2) financial liabilities;(3) equity instruments;(4) derivatives; and (5) hedge accounting. The results of the	Not presented	high	Users of financial statements, and corporate governance system	Greater with the use of IFRS	Higher before IFRS adoption

Paper	Year of the study	Main results	Costs and benefits	Level of compliance	Factors affecting the level of compliance	Transparency	Value relevance
The analyses of the comparability of selected financial items according to Czech regulations and IFRS							
Strouhal (2009)	2009	performed analysis show a high level of similarities between the two national set of GAAPs and IFRS/IAS. The analysis of the current development stage of the Czech and Romanian capital markets does not support the necessity of such a high degree of similarity. The study places important role of the information provided through financial reporting within the mechanisms of capital markets. The performed analysis on national accounting regulation reveals a high degree of similarities with the international referential. This imposes the focus on the significance of the found dissimilarities and questions how appropriate the formal harmonization degree refers to the level of development on Czech capital markets.	Benefit is in a high similarity degree among all considered accounting regulations (IFRS, European Directives and Czech accounting regulations), as to be a major factor for capital market in the current crisis.	high	The effectiveness of capital markets, easy access to information and its efficient processing	Not specified	Slightly larger in IFRS
Kubickova and Jindrichovska, (2013)	2013	This study identifies which changes in the financial indicators are caused by the IFRS adoption in the Czech firms. And focusses on confirmation of different results and the impact of IFRS. It has been found that the impact of these changes on value of financial ratios is more pronounced in Southern Europe to lesser extent in Turkey. The impact is less pronounced in the countries of Northern and Central Europe negative impact of IFRS adoption in Hungary.	Harmonisation of the changes in the financial indicators in various countries and the differences which are very similar to the classification of national accounting systems.	high	Harmonization of accounting processes undertaken locally, national social, economic, legal factors	Similar according to Czech rules and IFRS	Similar according to Czech rules and IFRS

## The development of accounting and application of IFRS in the Czech Republic

Paper	Year of the study	Main results	Costs and benefits	Level of compliance	Factors affecting the level of compliance	Transparency	Value relevance
The analyses of the comparability of selected financial items according to Czech regulations and IFRS							
The detailed analyses of selected accounting areas before and after IFRS implementation and regulation							
Larson and Street (2004)	2004	Study examines the progress and perceived impediments to convergence in 17 European countries directly affected by the EU's decision. A number of impediments to convergence were identified by the 2002 convergence survey. These include insufficient guidance on first-time application of IFRS, the tax-driven nature of the national accounting requirements a relatively underdeveloped capital market, and a general satisfaction with national accounting standards.	Positive is that, foreign investors are seen as supporting the adoption of IFRS. Benefits of increasing confidence in financial markets, reducing the cost of capital and facilitating global investments.	high	Users of financial statements, and corporate governance system	Not specified	Not specified
Mackevicius <i>et al.</i> (2008)	2008	EU motivates the regulation by referring to the enhanced international comparability and transparency of financial statements. In the Czech Republic, the most significant problem of financial statements and items shown is the inconsistency of the measurement bases and the application of the historical (acquisition) cost, fair value and present value. The responsibility for entity's financial statements shall rest upon the head of the entity.	Not specified	average	Not specified	Similar according to Polish rules and IFRS	Not specified
Prochazka (2010)	2010	The implementation process of the IFRS into the EU acquis communautaire is a radical change. The impact on preparers and users is more significant. It turned out that the IFRS adoption	Usefulness in comparison with the CAS, the IFRS infiltrates into	high	possibility of upward revaluation, financial	Transparency is improved	Not specified

<b>Paper</b>	<b>Year of the study</b>	<b>Main results</b>	<b>Costs and benefits</b>	<b>Level of compliance</b>	<b>Factors affecting the level of compliance</b>	<b>Transparency</b>	<b>Value relevance</b>
The analyses of the comparability of selected financial items according to Czech regulations and IFRS							
		has been leading to a greater interconnection between financial and internal reporting in the context of the Czech accounting practice. In many companies the IFRS carry out the function of internal management accounting allowing better internal performance evaluation.	management accounting systems. The improvement is more significant in countries with code law and in countries with strong position of taxation system- esp. in CEE countries.		measures and management and reporting aspects		

**Appendix 2 Relevant Czech legislation analysed in this article<sup>4</sup>**

1. Law No 116/1946 on unified organization of corporate counting
2. Government regulation No 165/1948, on unified principles of cost calculation
3. Law No 108/1951 on organization of national economy evidence,
4. Government regulation No 30/1958, on accounting evidence principles
5. Decree No 65/1958 on depreciation of basic funds,
6. Government regulation No 1/1951 on uniform valuation principles in corporate accountancy
7. Law No 99/1961 on state control, statistics, and other fields of national economic evidence
8. Government regulation No 96/1966 on unified principles of cost calculation,
9. Decree on depreciation
10. Decree on unified classification of capital funds (PPE) and on inventory
11. Law 21/1971 on single set of socio-economic information
12. Government Decree 153/1971 on information systems of enterprises
13. Law 154/1971 on accounting
14. Law 155/1971 on inventory
15. Decree 162/1980 on the financing of restoring basic funds
16. Act of 1991 on Accounting 1, 1993. Act 117/1994 Amendment of scale of accounting in relation to the parties and political movements
17. 227/1997 Amendment of scale of accounting in relation foundations (*Zákon o nadacích a nadačních fondech a o změně a doplnění některých souvisejících zákonů*)
18. 492/2000 Zákon, kterým se mění zákon č. 586/1992 Sb., o daních z příjmů, ve znění pozdějších předpisů, a některé další zákony
19. 353/2001 Zákon, kterým se mění zákon č. 563/1991 Sb., o účetnictví, ve znění pozdějších předpisů, a některé další zákony
20. 437/2003 Zákon, kterým se mění zákon č. 563/1991 Sb., o účetnictví, ve znění pozdějších předpisů, a některé další zákony
21. *Law 438/2003 Zákon, kterým se mění zákon č. 586/1992 Sb., o daních z příjmů, ve znění pozdějších předpisů, a některé další zákon*
22. Act 410/2010 Zákon, kterým se mění zákon č. 563/1991 Sb., o účetnictví, ve znění pozdějších předpisů Amending the Law on Accounting
23. 239/2012 Changes in the Accounting Act in connection the next stage of preparing the state accounting, further details on process of inventarizaiton

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<sup>1</sup> Economic Council was the highest state authority for management of the national economy.

<sup>2</sup> Government regulation No. 1/51 unified valuation principles in accounting of corporates. Available on-line [18-05-2014] at <http://www.zakonyprolidi.cz/cs/1951-1#cast1>

<sup>3</sup> The Act 586/1992 Coll., Income Tax Law as amended valid as of January 1, 2011, § 23, par. 1., available at [www.zakonyprolidi.cz](http://www.zakonyprolidi.cz), online 12-05.2014

<sup>4</sup> The full wording of each law or regulation is available on the website <http://www.zakonyprolidi.cz/> sorted by the identification number of each act or regulation.