

ACCOUNTING HARMONIZATION - A CONSEQUENCE OF GLOBALIZATION AND INTERNATIONALIZATION

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Abstract. The financial system of the market economy is currently based on a trust in accounting data. The financial statements present the entity in terms of its financial position and in terms of its performance. It's disclosure capability is as fundamental importance to its users, significant decisions are often taken with long-term consequences based on the information contained in the financial statements. The way and scope of financial accounting regulation is different at the national level, however, in the context of advancing globalization and the internationalization of capital markets, the importance of international accounting harmonization is increasing. The general accounting principles and procedures used in the various countries of the world are gradually unifying. Harmonization of accounting leads to increasing the comparability, clarity and reliability of economic information. The purpose of this contribution is to compare financial statements according to national accounting adjustments and according to IFRS, which usage is legislatively defined in the Czech Republic, also the definition of the significant differences between Czech accounting regulations and international financial reporting standards IFRS. The comparison of financial statements according to Czech accounting regulations and IFRS is made using the data of the real enterprise. Discovered differences are discussed in relation to selected indicators of financial analysis.

Keywords: accounting harmonization, financial statements, financial indicators

JEL Classification: M41, M48, K22

1. Introduction

The ongoing process of accounting standards convergence aims to unify national accounting standards of individual states into supranational approach in accounting in order to ensure the business transparency within a global environment. The quality of information stated in accounting is important for decision making by managers and other stakeholders (Myšková, 2009). Pursuant to Onaliho et al. (2017) the accounting standardisation is linked to the reduction of information asymmetry, Bassemir (2018) believes that the private companies that use IFRS have more growth opportunities. Abad et al. (2018), Neel (2017) and Beuselinck et al. (2017) add that the goal of IFRS is to increase the transparency and comparability of accounting information that should improve the information environment of these companies. It is also supported by the fact that the accounting harmonisation progresses subsequently (Honková, 2016), together with the development of European Financial Reporting Advisory Group (Van Mourik & Walton, 2018), and IFRS are evaluated also in relation to US GAAP (Blatt & Gulbin, 2018). Pursuant to Ram & Newberry (2017) the complexity of setting of international accounting standard shall be taken in to account in rational decision-making. Pursuant to

Koning et al. (2018) the transfer to IFRS was unexpected and not quite welcomed as most of nation accounting systems in the period before IFRS was considered as well adapted to local cultural and environmental characteristics of individual countries. IFRS are also critically regarded by Richard (2017) who states that the accounting system of IFRS is absolutely unsuitable for needs of new ecologic works and presents a serious threat for the development of healthy economic system. The introduction of IFRS is critically also evaluated by Pawsey (2017), from the point of view of costs related to the adaptation of financial statements and the increase of accounting operations. Sanhueza & Parada (2017) warn that there is a risk of IFRS abuse and application of creative accounting. Thus the accounting kept by IFRS has its supporters and opponents and thus this text aims to compare the financial statements based on the national Czech accounting rules and on IFRS and to evaluate the differences that incur due to differences of both systems.

2. Methods

Based on accounting systems characteristics and their comparison the important differences are defined in accounting statements, in the balance as well as in the profit and loss statement. The effect of differences is shown in the case of a specific company, including the effect on the amount of chosen financial indicators.

2.1 Comparison of financial accounts pursuant to the Czech legislation and IFRS

The financial accounting in the Czech Republic is ruled by legal regulations, binding patterns of accounting statements and defined accounting standards. Due to the harmonisation of accounting statements within the European Union some accounting units in the Czech Republic are not subject to the national accounting regulation but the Act No. 563/1991 Coll., on accounting, as amended (hereinafter as ZÚ) adapts the option, or the obligation, to keep accounts and prepare financial statements pursuant to the International Financial Reporting Standards - IFRS, see § 19a ZÚ [16].

In the Czech Republic there is the Directive No. 500/2002, Coll. that serves as the implementation regulation of ZÚ for business entities and it defines implementation of some provisions of the Act on accounting, as amended, for accounting units that are entrepreneurs accounting with the system of double entry bookkeeping [15] (hereinafter as the Directive No. 500/2002 Coll.). The Czech accounting standards for entrepreneurs (ČÚS) do not treat the financial statements as a whole but they only treat some chosen issues – for example the consolidation of financial statements (ČÚS 020) or comparability in reporting of items in the balance and the profit and loss statement (ČÚS 024).

IFRS contain the Introduction, Foreword and Conceptual framework that is the base for solution of individual accounting standards and that enables to understand principles of individual IFRS standards for ensuring of accounting rules consistency. In terms of financial statements the following standards are important IAS 1 – Presentation of financial statements, IAS 7 – Statement of cash flows, IAS 8 – Accounting policies, changes in accounting estimates and errors, IAS 10 – Events after reporting period, IFRS 10 – Consolidated financial statements, IAS 27 – Consolidate and separate financial statements and others (IAS 28, IAS 31 and IFRS 3). The financial statements include: Statement on financial situation by the end of reporting period (balance), Statement on comprehensive income for the reporting period (profit and loss statement in general), Statement on changes in equity for the reporting period, Statement of cash flow for the reporting period, Comments containing the summary of substantial accounting rules and other explanatory notes, and the Statement of financial situation until the beginning of the latest compared period provided the accounting unit applies

the accounting principles retroactively or performs retroactive corrections of financial statements items or changes the items classification for financial statements. The form of statements is not strictly defined, only the minimum scope of presented data is defined.

2.2 Definition of substantial differences

In spite of prevailing effort to harmonize the accounting there are still several substantial differences between compared systems. The Czech accounting misses the document that would be equivalent to the Conceptual framework and thus the definition of assets, liabilities, costs, revenues and equity are missing and the interpretation of these terms can be different in both systems (for ex. set-up costs were shown, until 2016 in the Czech accounting, as assets even based on IFRS they have no assets features).

There is also a difference in presented goals of financial statements. IFRS defines the goal of financial statements as the provision of data on financial situation, performance and changes in financial situation of accounting unit that are useful for a large scope of users who make economic decisions. ZÚ in § 7 only states that the financial statements shall be made comprehensibly and shall show true and honest image on the object of accounting and financial situation of accounting unit so that a person who uses such information can make economic decisions. The true image requires that the content of financial statements correspond to real situation and is in accordance with accounting methods. The honest image is fulfilled provided the used accounting methods lead to presentation of true data. The content of financial statements is also different: pursuant to the Czech version the balance, the profit and loss statements and the annex shall be issued, other statements are prepared only by several entities (namely business companies except for micro and small accounting units) whereas the financial statements pursuant to IFRS have strictly defined content compound of all statements (see above).

The differences are also seen in the format of individual financial statements because the IFRS standards do not prescribe their format nor their factual character but the accounting pursuant to ČÚS have prescribed formats of some statements of which versions are based on the 4th Directive of the EU:

- Comparison of the balance and the statement of financial situation – pursuant to IFRS assets and liabilities can be divided in current and non-current ones, or the order by liquidity can be used. The most significant differences are in the area of non-current assets and inventory: the classification of non-current tangible property in IFRS (IAS 16) is based on a general definition of assets whereas the economic usability of assets longer than one year is important. The Czech version of accounting prescribes only the way of evaluation. Pursuant to the Czech accounting the spare parts are classified as current assets and are kept as an item of inventories whereas pursuant to IFRS standards they are non-current assets that should be depreciated. The Czech accounting also does not specify the issue of costs related to the disposal of non-current assets that are, based on IAS 16, part of purchase costs of assets, at the amount of estimated provision. According to IFRS the non-current tangible assets are estimated at initial evaluation by purchase price (IAS 16, IAS 40). After the initial statement the model of Fair Value evaluation or the model of Purchase Price can be used. Provided the accounting unit chooses one model of evaluation than, except for exceptions stated in IAS 40, it uses such model for all investments in properties. The assets are classified based on classes in IAS 16 and use the same models as IAS 40. IFRS also require to differentiate assets that the accounting unit intends to sell, for which it actively search for a buyer and there is a great probability of selling them (IFRS 5). The Czech version accounting does not treat this issue and assets kept for the purpose of sale are shown as the non-current

assets. Other visible differences are also shown in the area of non-current intangible assets, inventories or provisions.

- Comparison of the profit and loss statement and of the statement on comprehensive income – IFRS enables to prepare the statement on comprehensive income in form of one complete statement (presenting the statement of comprehensive income, including other comprehensive income statement) or in form of two statements (the statement on comprehensive income and the statement on other comprehensive income). The format is not prescribed, only the minimum content of stated information is defined. On the contrary, the Czech version of accounting prescribes the binding format of the statement with option to prepare it in type or purpose classification, with preferred type classification. In case of purpose classification, there is the obligation, pursuant to § 39 par. 8 of the Directive No. 500/2002 Coll. to state at least basic items of costs in type classification in the annex to the financial statement.
- Comparison of statements on changes in equity – according to the Czech accounting regulations it is not an obligatory part of financial statements, it is prepared only by some accounting units.
- Comparison of statements of cash flows - according to the Czech accounting regulations it is not an obligatory part of financial statements. Both systems enable the choice of direct or indirect method of statement preparation and the cash flows are shown in statements for operational, investment and financial activities. The unrealised exchange rate differences are also stated differently: in the Czech statements they are a cash flow from main activity, in IFRS they are not any cash flow.
- Comparison of the annex and comments – they both serve to amend and clarify facts stated in other financial statements, their composition is similar but the comments are more complex when compared to the annex (see for ex. IAS 1, IAS 10 or IAS 14).

2.3 Mutual concordance of Czech accounting regulations and IFRS

Since 2016 the income and costs of operational and financial activity are shown within the profit and loss statement. The use of component depreciation can be an example of both accounting systems harmonisation. It is suitable in the case when the non-current assets is compound of several parts, i.e. components that have different life time and with regard to the purchase price of the whole asset their evaluation is important. IFRS requires the component depreciation whereas in the Czech Republic it is only an option of choice. Since 2010 buildings, flats and business premises, separate movable items and sets of movable items can be depreciated with regard to the importance and the true and honest image of accounts and of the financial situation of accounting unit. This enables to equally distribute the costs load for the life time of the whole asset made of components.

2.4 Comparison of financial statements in a real company

The comparison is focused on the balance and the profit and loss statement. The company (production company) is a controlled person that is obliged to follow the publicly available consolidated financial statements of its top parent company XY. Pursuant to § 19a par. 7 ZÚ, based on the decision of shareholders, the separate financial statements are made in accordance with IFRS and published based on the use of the option of consolidation exemption pursuant to IFRS 10 and the exemption of equivalency methods use pursuant to IAS 28. The comparison is based on data from published financial statements of the company prepared pursuant to IFRS as per the balance date 31. 12. 2015 and on internal documents provided by the company kept by accounting rules pursuant to ČÚS. The object of subsequent analysis deals only with the most important items of differences between IFRS and ČÚS. Pursuant to IFRS the company

prepares its profit and loss statement under purpose classification, whereas pursuant to ČÚS it is made under type classification and that is why the transformation of statements made under ČÚS was made into the format used by the company for statements issued pursuant to IFRS.

From the point of view of the balance the most important differences in assets value relate to non-current property and inventories, as for its liabilities it namely related to equity items and current as well as non-current provisions (see the Table 1).

Table 1: Balance based on IFRS and the Czech regulations

	IFRS		ČÚS	
	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014
Assets in total	202 615	176 869	186 320	162 493
Intangible assets	24 813	25 168	8 806	11 159
Lands, structures, equipment	65 642	65 916	66 174	66 614
Equity interests in daughter companies	49	49	49	49
Equity interests in associated companies	2 352	2 352	2 352	2 352
Other non-current liabilities and financial assets	11 185	9 047	11 305	9 147
Deferred tax receivables	3 613	2 607	3 613	2 607
<i>Non-current assets</i>	<i>107 654</i>	<i>105 139</i>	<i>92 299</i>	<i>91 928</i>
Inventory	15 115	12 326	14 119	11 283
Trade receivables	11 937	11 941	11 937	11 941
Other current receivables and financial assets	5 629	4 387	5 629	4 387
Cash and cash equivalents	62 280	42 878	62 280	42 878
Assets classified as held for sale	0	198	0	0
Accrued and other assets	0	0	56	76
<i>Current assets</i>	<i>94 961</i>	<i>71 730</i>	<i>94 021</i>	<i>70 565</i>
Liabilities in total	202 615	176 869	186 320	162 493
Equity	16 709	16 709	16 709	16 709
Share premium	1 578	1 578	1 578	1 578
Retained profit of previous years	73 147	68 469	58 556	56 550
Economic result for current reporting period	30 816	18 421	28 882	15 764
Additional paid in capital	-4 768	-5 176	-4 768	-5 176
<i>Equity in total</i>	<i>117 482</i>	<i>100 001</i>	<i>100 957</i>	<i>85 425</i>
Financial and other non-current liabilities	5 744	7 898	5 744	7 898
Non-current provisions	13 197	10 509	13 267	10 569
<i>Non-current liabilities</i>	<i>18 941</i>	<i>18 407</i>	<i>18 941</i>	<i>18 407</i>
Trade payables	38 012	35 741	38 012	35 741
Financial and other current payables	10 966	10 280	10 966	10 280
Payables of due income taxes	2 375	1 559	2 375	1 559
Current provisions	14 839	10 881	14 889	10 921
<i>Current provisions</i>	<i>66 192</i>	<i>58 461</i>	<i>66 422</i>	<i>58 661</i>

Source: own comparison based on interne documents of the company

In comparison of the profit and loss statement (hereinafter VZZ) the different effect of both accounting systems in the economic result is visible, see the Table 2.

Table 2: Profit and loss statement pursuant to IFRS and to ČÚS

	IFRS		ČÚS	
	31. 12. 2015	31. 12. 2014	31. 12. 2015	31. 12. 2014
Revenues	314 897	299 318	314 897	299 318
Costs of sold products, goods and services	268 184	254 944	270 379	257 979
Selling costs	13 272	13 466	13 272	13 526
Administrative costs	7 273	6 939	7 358	7 049
Other operating revenues	18 779	5 130	18 779	5 130
Other operating costs	9 793	7 501	9 848	7 562
Operating revenue	35 154	21 598	32 779	18 332
Financial revenues	1 781	2 367	1 781	2 367

Financial costs	2 697	2 616	2 697	2 616
Financial result	-916	-249	-916	-249
Profit before taxation	34 238	21 349	31 863	18 083
Income tax	3 422	2 928	2 971	2 308
Profit after taxation	30 816	18 421	28 892	15 775

Source: own preparation based on interne documents of the company

3. Results and Discussion

Differences in definition of individual items of assets and payables and the resulting effect of their corrections to costs with regard to the amount as well as the structure are shown in the Table 3.

Table 3: Scheme of differences in stated profit pursuant to IFRS and ČÚS (in mil. CZK)

	2015	2014
IFRS – profit before taxation	34 238	21 349
ČÚS – profit before taxation	31 863	18 083
Differences:	-2 375	-3 266
- Development costs of development under own overhead costs and for own purposes	-2 000	-2 800
- Important spare parts	-10	-25
- Depreciation of company vehicles	-300	-350
- Purchase value and depreciation of non-current tangible and nontangible property	-55	-61
- Total prepayments	+20	+15
- Provision for repairs of non-current property	-30	-45

Source: own preparation based on interne documents of the company

Reasons for differences are following.

- Development costs of development under own overhead costs and for own purposes – pursuant to IFRS the costs are activated as the non-current intangible property and they are in costs through systematic depreciation that are in the profit and loss statement part of costs for sold products, goods and services. Pursuant to ČÚS the company includes such costs in costs of regular reporting period as costs of sold products, goods and services but in other sum when compared to the above stated depreciations.
- Important spare parts – pursuant to IFRS they are activated as non-current tangible property, they are included in costs again through depreciations, in the profit and loss statement they are in the item of costs and sold products, goods and services. Pursuant to ČÚS these spare parts are shown as the inventory and after leaving the stocks they are shown in costs of sold products, goods and services.
- Depreciation of company vehicles – this is a specific item in the company accounts. In IFRS these vehicles are kept as inventory with regard to the duration of use, but in case of ČÚS they are recorded as non-current property and dully depreciated.
- Purchase value and depreciation of non-current property – different point of view of accounting systems in determination of purchase price of non-current property causes the different base for depreciations for every specific property when IFRS and ČÚS are used.
- Total prepayments – accrued and other assets are used in ČÚS for costs related with launching of production (thus they do not influence the economic results), in IFRS they are accounted as costs of regular reporting period at the moment of their occurrence.
- Provision for repairs of non-current property – pursuant to ČÚS it is shown together with other provisions as the provision pursuant to specific legal regulations. Scheduled costs are shown in the profit and loss statement gradually before the performance of the repair and thus no single decrease of economic results happens as in case of IFRS.

The difference between items of financial statements pursuant to IFRS and the Czech legislation subsequently influences values of financial indicators as shown in the Table 4.

Table 4: Financial indicators

	2015		2014	
	IFRS	ČÚS	IFRS	ČÚS
Current ratio	1,435	1,416	1,227	1,203
Quick ratio	1,206	1,202	1,016	1,013
Indebtedness (Debt Ratio)	0,420	0,458	0,435	0,474
Assets turnover	2,925	3,412	2,847	3,256
Return on assets (ROA)	0,152	0,155	0,104	0,097
Return on equity (ROE)	0,262	0,286	0,184	0,185
Leverage	1,725	1,846	1,769	1,902
Working capital (in mil. CZK)	28 769	27 599	13 269	11 904

Source: own preparation

Some indicators show similar values but in case of working capital and the leverage the difference due to two accounting systems is apparent. The liquidity and the working capital influence current liabilities that are based on ČÚS higher due to the creation of provision for repairs of tangible property. The return on equity and the leverage reflect the different amount of equity. The indebtedness and return on assets is influenced by different value of assets, the difference in the turnover of fixed assets relates to the value of non-current property that is in IFRS higher due the activation of development costs.

4. Conclusion

Due to the interconnection of national economies and the operation of supranational corporation the pressure on quality and predicative value of accounting information increases. Statements made pursuant to IFRS have better predicative characteristics from the point of view of stakeholders, it makes possible the international comparison of accounting data and simplifies the entry at foreign markets. A kind of disadvantage consists in the freedom in creation of accounting statement structure because the concept of IFRS can be interpreted differently in different countries. Financial statements pursuant to the Czech legislation do not enable in full to correctly evaluate the financial situation and the performance of accounting unit without additional information but they provide sufficient data for needs of income tax determination. The choice of accounting system is reflected not only in different values of costs, incomes and balance sum but also in values of financial indicators. It cannot be unambiguously determined which one of evaluated systems is better but it is obvious that the harmonisation of accountings will continue.

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