Jihočeská univerzita
v Českých Budějovicích
University of South Bohemia
in České Budějovice

FINANCIAL STATEMENTS
- Study Text

REGULATING AND HARMONIZATION OF ACCOUNTING

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1 GENERAL INTRODUCTION - GLOBAL REGULATION AND HARMONIZATION

General points of view

- users of financial statements require reliable, objective and comprehensible information
- the necessary formal form of the statements → information ability - a degree of control or regulation necessary
- global trends of globalization and internationalization (international financial flows) → convergence of generally accepted accounting principles and procedures = harmonization

Classification of accounting systems

- basic features of differences:
  - on defining the circle of users of financial statements
  - about the level of accounting regulation
  - about the relationship between accounting and taxes
  - on the reporting of income tax
  - the degree of caution when reporting the current year's profit or loss
  - choice of valuation variables (especially historical prices)
  - the degree of inflation
- different types of classification:
- **deductive approach** (from general to specific, from totals to parts; for developed countries); concepts:
  - macroeconomic - the country's accounting system is primarily based on national economy policy, opinion: the company develops its activity under limiting environmental conditions and corporate goals must ultimately be adapted to the economic policy of the state. Accounting is subject to the general interest.
  - microeconomic - accounting is primarily understood as part of the business sphere, which is considered the basis of the economy. The accounting system is subject to private interests and is geared towards the economic stability of the business.
- **inductive approach** (process from specific to general)
- **the cultural and social approach** (accounting as part of the traditional cultural and social values that society recognizes).

1.1 Accounting regulation

- in field of financial accounting
- influence: habits, economic and legislative environment, involvement in wider economic and political groupings, etc.
- accounting management:
  1. external - state, professional organizations (unions) → unification of accounting
  2. self-regulation - the company itself, while adhering to the country's generally accepted accounting principles, a small share of government regulation
- the trend of globalization (frontier activities - goods, capital, labor)
- investors → information → decision making (source of information: financial statements, incl. extensive comments)
- insufficient national accounting, or financial reporting → two systems of harmonization: US GAAP X IAS/IFRS
- ? the role of accounting X a true and fair view of the state of the assets, liabilities, financial results and financial position of the accounting units - scandals, bankruptcies

1.2 Regulation of financial statements

- based on user requirements
- both legally (this is also indirectly regulated by current accounting)
- base: USA - 1934 entrusted to SEC (Security and Exchange Commission) by setting accounting principles, methods and forms of financial statements for companies on the stock exchange (History dates back to 1929 and the New York Stock Exchange, when it was necessary to create rules for single accounting system)
- then the delegation of the task to the Financial Accounting Standards Board (FASB)

1.3 Generally Accepted Accounting Principles (GAAP)

They have 3 hierarchical levels:

- ✓ **fundamental postulates** - ideological assumptions and principles:
  - Basic assumptions:
    - the concept of accounting (economic) unit
    - business continuity assumption
    - valuation by monetary unit
    - assumption of a stable dollar
    - periodicity
    - accrual concept
    - concept of asset preservation
  - Basic principles, principles:
    - the principle of prudence (conservatism)
    - the principle of historical accounting
    - implementation principle
    - the principle of factual connection
    - the principle of consistency between accounting periods
    - the principle of objectivity of accounting information
    - the principle of materiality
    - preference of content before form
    - clarity
    - intercompany comparability
    - relevancy
    - the principle of true and fair view,
- ✓ **comprehensive theoretical basis** - a general approach to the processing of accounting procedures (standards)
- ✓ **Accounting Standards** (Statements of Financial Accounting Standards) - lowest level, most detailed, over 100 standards

Generally Accepted Accounting Principles, also called GAAP or US GAAP, are the generally accepted accounting principles adopted by the U.S. Securities and Exchange Commission (SEC). While the SEC has stated that it intends to move from US GAAP to the International Financial Reporting Standards (IFRS), the latter differ considerably from GAAP and progress has been slow and uncertain

Accounting standards have historically been set by the American Institute of Certified Public Accountants (AICPA) subject to Securities and Exchange Commission regulations. The AICPA first created the Committee on Accounting Procedure in 1939, and replaced that with the Accounting Principles Board in 1959. In 1973, the Accounting Principles Board was replaced by the Financial Accounting Standards Board (FASB) under the supervision of the Financial Accounting Foundation with the Financial Accounting Standards Advisory Council serving to advise and provide input on the accounting standards. Other organizations involved in determining United States accounting standards include the Governmental Accounting Standards Board (GASB), formed in 1984, and the Public Company Accounting Oversight Board (PCAOB).

Circa 2008, the FASB issued the FASB Accounting Standards Codification, which reorganized the thousands of US GAAP pronouncements into roughly 90 accounting topics.

In 2008, the Securities and Exchange Commission issued a preliminary "roadmap" that may lead the United States to abandon Generally Accepted Accounting Principles in the future (to be determined in 2011), and to join more than 100 countries around the world instead in using the London-based International Financial Reporting Standards. As of 201 O, the convergence project was underway with the FASB meeting routinely with the IASB. The SEC expressed their aim to fully adopt International Financial Reporting Standards in the U.S. by 2014. With the convergence of the U.S. GAAP and the international IFRS accounting systems, as the highest authority over International Financial Reporting Standards, the International Accounting Standards Board is becoming more important in the United States.

1.4 IAS = International Accounting Standards; IFRS = International Financial Reporting Standards

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. They are the rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external.

IFRS began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. However, it has been debated whether or not de facto harmonization has occurred. Standards that were issued by IASC (the predecessor of IASB) and are still within use today go by the name International Accounting Standards (IAS), while standards issued by IASB are called IFRS. IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On 1 April 2001, the new International Accounting Standards Board (IASB) took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards "International Financial Reporting Standards".

- IAS / IFRSs are issued by the International Accounting Standards Committee (IASC), established as a private organization in 1973, London.
- the extent and sophistication of the adaptation is documented by the fact that the full text of the standards is based on 2,200 pages of demanding text which - in order to be fully understood and applied correctly - requires not only good knowledge of practical accounting and financial issues, but above all understanding of the general principles of accounting
- standards are not a manual, a manual, an algorithm, or even a "chart of accounts", which would make it easy to start accounting; are principally formulated so as to be generic enough for application on a global scale and across a wide range of all possible economic sectors
- the aim is to align the composition and content of the items of the financial statements to the global level, which also entails the reasons for their creation:

  (a) the emergence of international companies

  (b) trading in securities on the capital market
- IAS / IFRSs include:
  - about the conceptual framework (function of statements, policies, items, valuation ...)
  - accounting standards (statements, inventories, depreciation, CF ...)
  - about interpretation (troubleshooting guide)

- 1975 - first two: IAS 1 - Disclosure of Accounting Policies, IAS 2 - Valuation and Inventory Reporting

- 2001 - IASC was established by IASB (International Accounting Standards Board) with the task of developing consistent, high quality and enforceable accounting standards for global use
- 2002 - Joint FASB (USA) and IASB (EU) Convergence 2002 to ensure US GAAP and IFRS Compatibility and Coordination for the Future
- Since 2003, the IFRS has not been aligned with the IAS, and the existing IAS is in effect IFRS replacement; + interpretations - clarify some provisions + react to new facts (eg introduction of EURA)

1.5 International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs, IFRS for SMEs)

– EU SME definition: Small and Medium Enterprise or SMB = Small and Medium Business:

1. medium-sized enterprises - organizational units whose number of employees is between 50 and 250 persons and their annual turnover does not exceed EUR 50 million (or the total value of the assets does not exceed EUR 43 million).

2. Small enterprises - Organizational units with fewer than 50 employees and at the same time turnover (or total balance) of up to EUR 10 million

3. Micro-enterprises - Organizational units with less than 10 employees and annual turnover (or total balance sheet total) of up to EUR 2 million

1.6 Situation in Europe

– the treaty establishing the European Economic Community of 1957 - the so-called Roman Treaty - set out in the preamble as its main task the foundations for bringing together the European countries in order to ensure their economic and social progress. Under this Treaty, which constitutes the legal basis for harmonization, the adaptation of the legislation of the EU member states takes place.
– to incorporate into national adaptations
– the instruments of this harmonization are directives binding on Member States in the sense that they must incorporate them into their national legislation.
– accounting area → EU accounting legislation = three directives (directives): 4, 7, 8:

~~Fourth Directive No 78/660 EEC of 25.7.1978~~ (now cancelled)

- o compromise between Germany, France and the UK (ie continental and Anglo-Saxon accounting) → the right of choice
- o focused on reporting to large and medium-sized capital companies (basic provisions, provisions for balance sheet and profit and loss - models, items, breakdowns, valuation rules)

~~Seventh Directive 83/349 / EEC of 13 June 1983~~ (now cancelled)

- o Focused on reporting by business clusters - Concerns, Holdings, etc. = Consolidated Units
- o there is little room for divergent legal regulation of states

Eighth Directive 84/253 / EEC of 10.4.1984

- o concerns the approval of the persons responsible for the audit (audit) of the financial statements

– since 2000 European Commission → Harmonization Strategy; Significant conceptual change by IAS / IFRS
– it is necessary for companies registered in European markets to prepare consolidated financial statements in accordance with IAS / IFRS + recommendations to member countries:
  - Incorporating compatible solutions to the issue of IAS / IFRS into national regulations
  - to extend IAS / IFRS applications to individual financial statements
  - Amend the European Accounting Directives, especially in the field of valuation

- 2002 - Regulation 1606/2002 of the European Parliament and of the Council on the use of International Financial Reporting Standards
- → Since 2005, all listed EU companies have the obligation to prepare their consolidated financial statements in accordance with IFRS
- 2003 - Directive 2003/51 EC, which amends the Accounting Directives

Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the annual accounts, consolidated accounts and related reports of certain types of undertakings, amending **Directive 2006/43 / EC of the European Parliament and of the Council and repealing Council Directives 78/660 / EEC and 83 / 349 / EEC**

- the directive was actually merged and replaced by the so-called Fourth and Seventh Accounting Directives of the European Parliament and the Council of the EC.
- the Directive was published in the Official Journal on 26 June 2013 and entered into force 20 days after its publication. Member States are required to bring into force the laws, regulations and administrative provisions necessary to comply with the Directive by 20 July 2015 at the latest. Member States may provide that the provisions in question shall be applied for the first time to the accounting period commencing on 1 January 2016 or during the calendar year in 2016.

1.7 Situation in the Czech Republic

- Czech accounting regulations, as well as a number of other national adjustments, are mainly focused on tax (mainly historical reasons)
- Act No. 563/1991 Coll., on Accounting - Section 19 (9) (as of 1 January 2011) and Section 23a (1) provide accounting entities which are issuers of securities registered in a regulated securities market in the EU Member States to compile individual, respectively. consolidated financial statements in accordance with IFRSs
- → parallel reports