Abstract: - There is a strong pressure from investors to report accounting items using fair value concept upon economic boom. The financial crisis period may raise an issue of revival of conservative concepts in financial reporting, e.g. historical costs measurement and application of prudence principle. 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). The results show significant compatibility of reporting under both regulations.

Key-Words: - Financial Reporting; IFRS; Investors; Czech Republic; Compatibility Tests; Comparative Analysis; SMEs

1 Introduction
The globalization and the expansion of markets as well as the general progress in the technologies available have brought new problems to the compilation of financial reports and to the ascertainment of trading income of supranational corporations and groups in accordance with statutory regulations of countries involved.

Small-and-Medium-Sized Enterprises (SMEs) sector forms as much as 99 % of business entities around the world [7]. Therefore it is necessary for policy makers to stress their attention just to the needs of these enterprises. It is a driving force of the sphere of business, of growth, innovations as well as competitiveness. It plays a decisive role in job creation and in general it is a factor of social stability and economic development. On the other hand, SMEs have often difficulties to gain capital or credits which are caused by continuing unwillingness of financial markets to take the risk and by insufficient guarantee which SMEs can offer to banks. Limited sources of financing can also make the approach to information more difficult, especially information on new technologies and potential markets.

SMEs create one third of the gross domestic product in the European Union and two thirds of jobs. They 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.

To support and develop these businesses, the European Union has introduced a new definition of small and medium-sized enterprises valid from 1 January 2005. They are defined by three major criteria: the number of employees, annual turnover in millions EUR and total value of assets in millions EUR (see Table 1).

Table 1. E.U. Definition of SME

<table>
<thead>
<tr>
<th>Entity</th>
<th>Employees</th>
<th>Turnover</th>
<th>Total assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>medium</td>
<td>50 – 249</td>
<td>max 50 mil. EUR</td>
<td>max 43 mil. EUR</td>
</tr>
<tr>
<td>small</td>
<td>10 – 49</td>
<td>2 – 10 mil. EUR</td>
<td>2 – 10 mil. EUR</td>
</tr>
<tr>
<td>micro</td>
<td>1 – 10</td>
<td>up to 2 mil. EUR</td>
<td>up to 2 mil. EUR</td>
</tr>
</tbody>
</table>

Source: own analysis

Together with these indicators a small and medium-sized enterprise should also fulfill a criterion of independence, which means that no other subject should
participate in its basic capital or voting rights by more than 25%.

Differences between a small and a big enterprise are as a rule defined not only by the above mentioned quantitative criteria, but also by qualitative criteria. The borderlines between small and large enterprises also depend on different conditions in individual regions and they also change with time. Basic differences between a small and medium enterprise and their interactions can be traced in several spheres. The differences are in:

- organizational and legal forms and in-house structures,
- relation between owners (entrepreneurs) and companies management,
- possibilities of sales and application of marketing strategies of small and large companies,
- capital availability and approach to outer sources of financing.

Strength of SMEs (small and smaller medium enterprises in particular) consists in their higher flexibility and to a certain point also in their innovative creativity. Next to a relatively unfavorable general business climate in the Czech Republic (tax burden level, complexity and non-transparency of legislation, problematic recovery of law etc.), whose negatives bear on SMEs with a higher intensity, a lot of specific factors influences them.

2 Literature Review

Without common accounting standards, there could be 27 different national methods of accounting in addition to the use of IFRS and US GAAP, which are permitted by some EU countries [17]. [2] warn that “the future of the IASB is tied to the successful introduction of IFRS in Europe”.

In the year 2002, the European Parliament and the Council of the European Union issued Regulation 1606/2002 whereby it stipulated certain duties on the part of companies listed on European stock exchanges to compile their consolidated accounting statements in accordance with IFRS. Therefore, beginning from 2005, a large number of listed enterprises, exhibiting significant heterogeneity in size, capital structure, ownership structure and accounting sophistication, started to apply international standards for the first time. The demand for detailed application guidance will increase substantially, as will the demand for uniform financial reporting enforcement throughout the European Union.

In addition to the use of IFRS by listed companies, many countries adopt international standards for unlisted companies or model their domestic standards on the basis of international standards. This provides an interesting example for those who argue that accounting standards should be left to competition in the marketplace [16].

The requirements for group listed enterprises to prepare IFRS reports from 2005 were established in most transitional economies, but it is still unclear to what extent other enterprises will prepare IFRS financial statements. Concerns about the lack of suitably trained accountants and auditors and the lack of efficient markets to ensure reliable fair values for the IFRS financial statements, have already been expressed [14]. This may cast doubt on whether the financial statements issued under IFRS will be reliable. Indications are that in most of the transitional economies of Eastern and Central Europe, other non-listed enterprises will not have to prepare financial statements according to IFRS.

Firms with international stock exchange listings face additional capital market pressures and stock exchange requirements that may lead them to increase their level of disclosure. Investors demand information about the domestic operating environment and domestic accounting regulations of foreign listed firms. Many stock exchanges around the world allow foreign registrants to prepare their financial statements according to IFRS or US GAAP. Prior studies show that the level of disclosure [9] and the probability of using non-local GAAP [3, 8] are positively associated with the number of foreign stock exchange listings of a firm. The impact on financial reporting of cultural differences has been well documented [11]. There may be more disclosure by UK and US companies that have a culture of disclosure of information than by companies that have not traditionally aimed to produce especially transparent financial statements (e.g. companies from transitional economies such as the Czech Republic).

3 Current Issues of Czech Reporting

Owing to the opening up of the financial markets also in the transition countries to external competition, its financial and non-financial sector faced strong competition from companies from developed markets [1]. From the year 2005, IFRS were given as a legal framework for reporting of all listed companies in all E.U. countries. The “target user” of the financial statements in the Czech Republic is still the tax authority, not the investor or owner. Moreover, unlike international standards, the Czech accounting regulations lack a glossary of definitions for basic elements of financial statements, which is why we shall use the definitions applied in IFRS standards, namely in the Framework. Reliable measurement is expected from all entries involved.
Concerning the initial recognition under Czech laws, the Accounting Act (Section 24) identifies the following valuation alternatives:

- historical costs, i.e. the cost of acquisition of the assets concerned, including the costs related to the acquisition itself;
- replacement/reproduction cost, i.e. the cost for which the assets would be obtained at the time of the accounting statement;
- production costs, which include all direct costs expended on the manufacturing or other activity and that part of indirect costs, which is related to the manufacturing or other activity involved;
- nominal value, i.e. the face value.

In the Czech Republic, items are usually measured at historical costs, while donated or gratuitously procured assets are measured by replacement costs, which are the approximate equivalent of the reproduction cost as defined by IFRS. Under certain circumstances, the realizable value and the fair value also may be used as the measurement bases for financial accounting. On the other hand, the Czech regulations virtually ignore measurement methods based on present value [12], which are required for measurement of long-term receivables, long-term payables and financial assets held to maturity (under IFRS).

3.1 Reporting of Assets and Liabilities

Intangible fixed assets are intangible assets, which the accounting entity intends to keep for more than one accounting period (the Income Tax Act also specifies that the input price of intangible fixed assets must exceed the sum of CZK 40 000). The value of intangible fixed assets is measured by historical cost (acquisition price) for assets purchased, by production costs for internally generated assets and by replacement price for assets obtained gratuitously. Tangible fixed assets are subject to depreciation; the accounting books should show the so-called book depreciation. The tangible fixed assets must be accounted for in compliance with the prudence principle as of the balance day, meaning that the accounting entity should disclose either the net book value or the lower present market price of the tangible fixed assets concerned.

Measurement at fair values is preferred by the international companies in the Czech Republic. We think that there is a good information background for the calculation of the fair value of property, plant and equipment (PPE) or investment property. On the other hand, the Czech Ministry of Finance prefers the prudence principle and also, for the Tax Authorities, it is much easier to find out the historical costs rather than to calculate the fair value.

Financial leases are treated totally differently under Czech GAAP. The “form over substance” principle is fully applied, as it is the leasing company, which reports the leased assets, not the lessee! We think that this is the main problem of Czech GAAP nowadays and has great consequences for financial decisions. Also, it should be stated here the unwillingness of the Czech Ministry of Finance to solve the problem with financial leases as under IFRS, where the traditional principle “substance over form” is used.

Inventories are current assets consumed by an entity during one year or within one operating cycle for generating revenues. Usually, we distinguish between inventory purchased and processed production. At the time of acquisition, the value of inventories is measured by the historical costs (acquisition price for purchased inventories), replacement price (for inventories obtained gratuitously) and production costs (for processed production). For the measurement of the value of inventory decrement, the same cost formula should be used for all inventories with similar characteristics as to their nature and use to the enterprise. For groups of inventories that have different characteristics, different cost formulas may be justified, including FIFO, the weighted average cost formula, the fixed inventory price with independent disclosure of variations or the actual acquisition price. Accounting entities are entitled to choose from the continuous inventory system (method A) and the periodic inventory system (method B) for inventory records. In the continuous inventory system, accounting entities record inventories via account groups Materials, Processed Production and Goods and allocate
inventory decrement to costs (Raw Materials, Resale of Raw Materials, Consumables and Purchased Finished Goods) or to income adjustments (group Change in Inventory (Stocks)). In the periodic inventory system, accounting entities record the purchased inventories in the relevant costs accounts and during the accounting period do not even use balance-sheet entries such as Inventory of Materials and Consumables or Inventory Purchased for Resale – In Storage. Instead, as of the balance day, the accounting entity transfers the initial status of the balance-sheet entries into costs and based on the stock-taking results transfers from the costs the final status of purchased inventories into the balance sheet. Inventories must be accounted for in compliance with the prudence principle as of the balance day, meaning that the accounting entity must record the inventories with their book value or with their lower present market value.

The short-term and long-term receivables constitute a part of current assets, while short-term and long-term payables are included among liabilities. Both receivables and payables should be measured by their nominal value, unless obtained in exchange for consideration, in which case they should be measured by their acquisition price. The impossibility to measure the long-term receivables and long-term payables at their present value (what is also possible e.g. in Slovakia) is quite surprising. Accounting entities must convert receivables and payables in foreign currencies as of the moment of their measurement to Czech crowns in accordance with the current exchange rate of the Czech National Bank or a fixed exchange rate. As of the balance date, the accounting entities must also convert the sum of pending receivables and payables to Czech crowns in accordance with the current exchange rate of the Czech National Bank. Foreign currency exchange losses and gains should be recognized in the income statement.

The deferred tax assets and liabilities arise from the differences between the accounting and taxation concepts of selected accounting entries. The accounting for the deferred taxes is based on the assumption that the accounting entity will apply the deferred tax in a later period than the due tax. The recognition and the accounting for the deferred tax are mandatory for entities, which form the consolidation units (i.e. enterprises within a group) and the accounting entities, which are obliged to compile the final accounts in their full extent. Other accounting entities may account for the deferred tax at their own discretion. The accounting for the deferred tax does not affect the tax liability. At the same time, it affects the sum of disposable profit, i.e. profit intended for allocation. The calculation of the deferred tax should be based on the balance-sheet approach. The deferred tax should be recognized for all temporary differences arising from the different accounting and tax views of entries included among assets and liabilities. It is also necessary to account for differences between the tax and tax residual price of the deductible tangible and intangible fixed assets as well as for other differences such as the reserves created beyond the scope of statutory duty, recognition of adjustments to inventories or receivables etc.

Credits and financial assistance should be measured at their nominal value. Short-term financial assets are included among the current assets of an enterprise. We distinguish between cash in hand, cash at bank and short-term securities. Cash items are measured at their nominal value, while short-term securities are measured by the historical costs (acquisition price). Short-term securities are measured at fair values, however it should be stated that it is quite difficult to measure the fair values of shares because of not very transparent stock exchange in the Czech Republic (Prague Stock Exchange).

The Accounting Act stipulates that only the genuine profits should be accounted for in the balance sheet, and that the accounting entity should take into consideration all predictable risks and possible losses affecting its assets and liabilities and known to the accounting entity at the time of balance sheet compilation. Also, it should include all devaluations regardless of the fact whether the accounting entity showed profit or loss in the accounting period. The accounting entity is entitled to use provisions, adjustment entries and write-offs for that purpose. Provisions are aimed to cover future expenses or liabilities, whose purpose is known and which are expected to occur, but whose timing or amount is uncertain. However, provisions may not be used to adjust the value of assets. Provisions may be used only for the purpose for which they have been originally recognized. Logically, a provision may only be used to the maximum amount in which it was created; and a provision may not have a debit balance. The balance of reserves at the end of the accounting period should be transferred to the subsequent period. Accounting entities are obliged to review provisions entered in the books at the end of the accounting period, and assess their tenability and amount. If it is discovered that the reason for which the provision has been created has lapsed, the provision should be dissolved in its full extent. If it is discovered that the provision is for a different sum than it is due, it should be adjusted. In the balance sheet, provisions should be accounted for under liabilities. The Accounting Act defines the following types of reserves: provisions for risks and losses, provisions for
income tax, provisions for pensions and similar obligations, provision for restructuring, technical provisions or other provisions pursuant to special legal regulations (statutory provisions). The Provision Act stipulates three types of provisions for enterprises: provision for repairs of tangible assets, provision for cultivation of crops, other provisions (for the removal of mud from a pond, for the redevelopment of plots affected by mining, for the settlement of mine damage or provisions stipulated by special laws as costs required to achieve, ensure or maintain revenues).

3.2 IFRS for SMEs

According to [10] the reasons of low integration of SMEs in business activities on the single market (cross-border activities), compared to big companies are mainly the following:

- differences in legal regulations of individual member countries,
- non-existence of unified accounting standards for these enterprises (until July 2009),
- non-existence of unified taxation of these enterprises,
- limited offer of capital and financial sources,
- insufficient support of SMEs business activities on the single market,
- cultural and language differences,
- lack of information.

It seemed that the single EU market needed unified legal standards and standardization in the sphere of financial reporting for SMEs. For this reason important initiatives started at the beginning of the new millennium with a purpose to provide SMEs with knowledge and tools necessary for crossing the local borders and entering other EU countries but also countries outside the EU and for easier export of products and services.

Currently, the European Commission is considering revision of the directives which should pay higher attention to the needs of SMEs, especially in the following spheres [18]:

- Revision of accounting principles. Principles included in the directives are revised to conform to accounting situation 30 years ago;
- Transformation of the directive with the purpose of hierarchical grouping of the requirements according to how they are to be fulfilled from small to big companies;
- Revision of criteria according to which companies are categorised;
- Examination of items in financial statements in dependence on the companies’ category and also on companies’ field of business;
- Examination of financial statement formats with a purpose of their radical simplification for small enterprises. In connection with this there is a requirement to use one set of statements for different purposes in small enterprises, e.g. for taxing authorities and for the purposes of statistics;
- A question is if the directives should maintain protection of the creditors.

The question if SMEs need consistent harmonization has already been discussed for more than ten years. Objections of financial reporting harmonization opponents claiming that SMEs are not of international significance in the globalized world are fading out. Even in SMEs there are foreign investors for whom the need to orientate themselves in financial statements is vital. In addition, many of these enterprises are a part of a consolidation group where the same rules, comparable accounting methods and standard procedures are required.

In 2003 the International Accounting Standards Board (IASB) started building international accounting standards for SMEs. It came out from a presumption that these standards have to:

- represent a simple, high-quality, understandable and enforceable system of accounting standards suitable for SMEs worldwide,
- minimize difficulties in compiling financial statements according to these standards,
- build these standards on identical conceptual frame with IFRS,
- enable an easy transition to full IFRS for bigger enterprises or for the case when some enterprises decide to use them,
- come out from the needs of users of the financial statements.

IASB had prepared a draft of the standard which was presented for external marking up in 2006, with anticipated issue in 2007 and entering into effect from 1 January 2008. The biggest opponent of the upcoming standard was the European Financial Reporting Advisory Group (EFRAG). It adopted a very critical approach to the IASB standard for SMEs. The EFRAG even considered the name of this standard as very unsuitable (Standard for Financial Reporting of SMEs) because it pointed out to the fact that this name could also be used by large, non-quoted companies. Opponents to this standard claimed that it should leave references to full IFRS standards and should include more simplifications compared to IFRS. Since 2008 the original intention to introduce an international standard for these enterprises has not been realized yet.

Based on public discussion IASB had decided to provide a new definition of accounting units for which the international accounting standard should be issued.
The accounting entities are defined as units which are not a subject of public interest or are non-publicly accountable entities. They are enterprises which do not trade their liabilities or equity capital tools on public market or which do not want to offer these tools on public market and do not hold considerable assets of a wide group of clients. A standard for such enterprises was issued on 9 July 2009 as IFRS for SMEs and it came into effect immediately.

The standard has 230 pages (it is ten times tinier than full IFRS) and it is adapted for the needs and abilities of smaller enterprises. Parts of the standard are the explanatory report and implementation manual which includes an example of financial reports of SMEs, presentations of financial statements and a list of requirements for disclosing. Many principles from full IFRS concerning recognition and appreciation of assets, liabilities, revenues and expenses were simplified, some items which did not relate to SMEs were left out and the number of requirements for disclosing was considerably simplified. This standard will further be simplified and will be revised every three years. The standard is based on individual spheres which are further divided into sections. IFRS for SMEs reacts to strong international demands of both developed and newly arising economies to introduce considerably simpler accounting standards for SMEs, compared to IFRS.

[6] is aware that if the European Union adopts this standard for its member countries, this will result in a loss of identity, mainly from the following reasons:

- IFRS for SMEs is a narrowing of full IFRS, which converges with US GAAP. This can be destructive for the existing EU environment and for the values historically recognized in Europe.
- There are conceptual differences in basic theoretical/philosophical approaches between IFRS for SMEs and accounting of the continental Europe, especially as regards the traditional groups of users, goals and rules.
- The countries of continental Europe used SMEs financial statements traditionally for informative purposes but also for tax purposes. The IFRS for SMEs is not able to fulfill these functions (and it does not want to fulfill them) because it is not orientated preferentially to circumspection which would preserve their equity capital and protect the creditors. A deviation from the principle of circumspection could have fatal consequences upon enterprises dependent on credits.
- So far the system of regulation in the EU has been based on the environment to which it should serve. Acceptance of IFRS for SMEs in EU environment will change this historical practice because regulation by the international standard will be primary and the EU environment will have to adapt to it, otherwise it would be impossible to apply the standards. Thus artificial environment will be implemented in the EU and also in each member country which does not correspond to its culture and its value priorities (legal, economic, social, environmental etc.).

### 4 Methodology

As mentioned before, having the belief that once regulatory bodies adopt a financial reporting paradigm, it becomes the guiding principle for accounting regulation [4], that is, standard setting, we began our research by first analyzing the foresights comprised within the IFRS concerning the matter of financial reporting and then moved forward to the national accounting system. An empirical analysis was performed by testing the similarities and dissimilarities between standards, taken two at a time in order to draw a well established conclusion regarding the comparability degree existent between them. The source of information for the empirical analysis was also the information gathered by closely analyzing the regulations mentioned above which were accordingly codified and assayed by using some statistical methods which are being detailed in the chapter dealing with the comparative approach of the national GAAP by reference to international reporting paradigms. After that there will be provided an empirical analysis of the current stage of financial reporting of SMEs in the Czech Republic.

### 5 Comparative Analysis

With the aim of identifying the eventual shift on national GAAP towards international reporting paradigms there had been performed an empirical analysis with character of comparison between Czech standards and IFRS. In order to achieve the proposed comparison, we have considered that the best analysis, in the case of this type of approach, is represented by the nonparametric correlation and the association degree between two or more than two considered variables.

The most frequently used methods in trade literature when an analysis at the level of national accounting regulations is aimed are Jaccards’ association coefficients. The Jaccard coefficient [5] is defined as the size of the intersection divided by the size of the union of the sample sets:

\[
J(A, B) = \frac{|A \cap B|}{|A \cup B|}
\]  
(1)
The Jaccard distance is complementary to the Jaccard coefficient and measures the dissimilarities. It is obtained by dividing the difference of the sizes of the union and the intersection of two sets by the size of the union:

\[ J_d(A, B) = 1 - J(A, B) = \frac{|A \cup B| - |A \cap B|}{|A \cup B|} \]

(2)

In order to achieve a quantification of the similarity degree between the considered accounting referential there was developed an empirical analysis with character of comparison. Based on the methodology of previous studies dealing with formal harmonization [e.g. 13] there was identified a series of elements regarding financial reporting.

The two considered coefficients offer the possibility of quantifying both the association degree and the dissimilarity degree between different sets of accounting standards taken into consideration for analysis. So as to dimension the association or compatibility level between two or more accounting systems, the calculation formula for the Jaccards’ coefficients shows as follows:

\[ S_{ij} = \frac{a}{a + b + c} \]

(3)

or

\[ D_{ij} = \frac{b + c}{a + b + c} = 1 - S_{ij} \]

(4)

where:

- \( S_{ij} \) represents the similarity degree between the two sets of analyzed accounting regulations;
- \( D_{ij} \) represents the degree of dissimilitude or diversity between the two sets of analyzed accounting regulations;
- \( a \) – the number of elements which take the 1 value for both sets of regulations;
- \( b \) – the number of elements which take the 1 value within the j-set of regulations and the 0 value for the i-set of regulations;
- \( c \) – the number of elements which take the 1 value within the i-set of regulations and the 0 value for the j-set of regulations.

As a result of the effective measurement of the comparability degree between the Czech and International (IFRS) accounting referential based on Jaccards’ Coefficients there was reached the conclusion that there is a high degree of similarity between national GAAP of the Czech Republic and IFRS on the approached area (see Table 2). The major differences are given by the level of required disclosed information.

### Table 2. Measurement of Similarities and Dissimilarities

<table>
<thead>
<tr>
<th>Reporting Area</th>
<th>CZE/IFRS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>( S_{ij} )</td>
</tr>
<tr>
<td>1 Intangibles</td>
<td>0.667</td>
<td>0.333</td>
</tr>
<tr>
<td>2 PPE</td>
<td>0.667</td>
<td>0.333</td>
</tr>
</tbody>
</table>

Source: own analysis

### 6 Current Issues in Reporting for SMEs

A key problem of accounting based on IFRS is the tax basis which is received from the accounting profit in the Czech Republic. For this reason, companies reporting under IFRS framework by law, they have to transform their accounting profit to such a result which they may have according to Czech accounting regulations.

Honestly there should be stated, that only small percentage of SMEs are really interested in providing, what is so called in accounting “true-and-fair view”. Still, majority of companies use accounting just to provide data which are necessary for calculation of the tax base; accounting information for the managerial purposes are used by SMEs very rarely.

According to above mentioned problems within reporting of SMEs in Czech there was prepared a questionnaire dealing with possible discrepancies between current reporting of those entities and recommendations in IFRS. The questionnaire was distributed between 132 companies from the category classified as “small-and-medium-sized enterprise”. The structure of the companies was as follows: production companies represented 30.3 %, trade businesses 24.2 %, and service-providing companies just 45.5 %.

The basic question of the questionnaire aimed at the problems of reporting, i.e. if the company reports also according to any other accounting system than Czech. Only 6.8% of the companies asked (9 companies) replied positively. Out of this five companies report under IFRS framework, one according to the German system, one company according to US GAAP, one according to the French system and one company according to HB II.

Fig. 1 shows that nearly 50 % of companies have this type of connection, 18.9 % of companies have an important foreign customer, 15.9 % of companies are linked to a foreign parent company.

Fig. 1. Connection of Companies to Foreign Entities
Another research question was concentrated on specific areas of reporting where the company makes modifications during the process of transition from the national accounting system to another accounting system. The companies which reported also according to another system than Czech modify assessment of assets and financial leases; they also have to modify provisions, exchange rates, corrections, depreciation, and measurement of inventories, financial assets and accruals.

Next part of the research has dealt with companies reporting nowadays under Czech accounting rules only. Therefore it has been focused on 123 companies from the former sample of 132 companies. The structure of the companies according to their type of business is nearly the same as in the case of the full set of companies (production companies are represented by 26.8 %, trade businesses by 25.2 % and services-providing companies by 48.0%).

To find out if these companies are interested in reporting according to IFRS in the future, there were questions asking if they expect usage of IFRS in the future, and if they expect some advantages from this use. Answers to these questions were evaluated both comprehensively and independently for companies with different types of business. Relative frequency of positive answers is provided in the chart in Figure 2.

Fig. 2. Future Use of IFRS within Companies

The future reporting according to IFRS is most interesting for companies from the trading sphere; on the other hand production companies have a rather conservative approach to the problems of accounting standards. It is interesting that all companies show a relatively high interest in training in this sphere.

As far as the difficulties of companies’ transition to reporting according to IFRS rules are concerned, the respondents were asked to specify the key areas of their accounting practice and the spheres of financial reporting which they consider as problematic. The questionnaire included the following list of financial reporting items: long-term assets, financial assets, liabilities, inventories, accruals, expenses, receivables, equity capital and revenues. Relative frequencies of accounting items chosen are provided within Figures 3 and 4. Again, the answers were evaluated comprehensively and independently for companies with different types of business.

Fig. 3. Frequency of Accounting Items Considered as Important in Per Cent

Fig. 4. Frequency of Accounting Items Considered as Problematic in Per Cent

The companies agree that items important for their accounting practice are liabilities, inventories, expenses, receivables and revenues. Certain differences in
measurement of these items probably results from specifics of their activities. Receivables, long-term and financial assets, as well as inventories and expenses also appear among items considered as potentially problematic. It is interesting that revenues which are often mentioned as important are not considered problematic by companies.

According to results of this research there could be stated that SMEs, which are not obliged to prepare financial statements according to IFRS, are not interested in IFRS. It is probably due to the fact that these companies concentrate mainly on the current state, the question of their future development (in unspecified future) is not so important for them. It is also due to disadvantageous proportion between the expenses invested and the revenues obtained. On the other hand shall be stated, that there is also provided within current research [15] a traceability system using open-source software, which is suitable for those kind of entities.

Companies reporting under IFRS framework find the biggest problems while reporting long-term assets, financial leases, provisions and exchange rate differences.

7 Conclusion
The most significant problem of the financial statements and items shown is the complete inconsistency of measurement bases and the application of the historic (acquisition) cost, the fair value and the present value. At present, the principle of measurement based on the historical cost is fading out as it is gradually being replaced by the IFRS trend of reporting fair values, which are, however, difficult to measure in less transparent markets. At the same time, the reporting based on the fair value includes the hidden danger of future volatility of such values and the consequent impact of the changes on financial statements.

The performed empirical analysis on aspects concerning reporting for financial instruments documented the existence of a high similarity degree among IFRS and Czech Regulation. It is clear that countries like Czech Republic are far from making themselves herd at international level just by considering the degree of development of their national capital market. Still we have European organism representing them and trying to keep feet with international developments.

Special standards would require SMEs to change their opinion on high-quality accounting in general, where instead of stressing correct accounting procedures and methods the emphasis is placed on the presentation of results - financial statements. If at present some small companies prepare financial statements according to another accounting rules than Czech, then it is because the foreign owners require understandable and comparable data, often also for the need of consolidation. In this case they adapt accounting information from financial statements made according to Czech regulations on the basis of precisely specified and prescribed concern rules.

Acknowledgement
This paper is one of the research outputs of projects GA402/08/P024 and GA402/09/0225 registered at Czech Science Foundation (GACR) and project MSM 6138439903 registered at Ministry of Education CR.

References:


