

INTERNATIONAL HARMONIZATION OF ACCOUNTING DEMANDS A NEW APPROACH TO ACCOUNTING EDUCATION

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Received: December 27, 2012

Abstract

OTRUSINOVÁ MILANA, HÝBLOVÁ EVA: *International harmonization of accounting demands a new approach to accounting education. Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis, 2013, LXI, No. 2, pp. 427–435*

Accounting and financial reporting are valuable sources of information about the financial position and performance of a company. The development of the international capital market have brought needs for international, globally valid and acknowledged accounting norms. Currently, the IFRS are used in agreement with the European Commission directive for the elaboration of financial statements of companies which are issued by securities; the other entities continue using national generally accepted accounting principles (GAAP). As the number of companies which apply the GAAP is predominant, the basis of the education of future accounting professionals is formed. However, this situation has to be changed because of the potential expansion of harmonization into a further group of companies (small and medium sized entities) and also because of the increasing international cooperation among companies. Accountants should gain knowledge about all concepts of accounting – specialization narrowed down to national GAAP is limiting, as has been confirmed by recruitment agencies. The aim of the paper is to analyse the needs of accounting education in the current situation in compliance with the development trends of this field.

accounting, harmonization, education, International Financial Reporting Standards, generally accepted accounting principles

Information is one of the most significant parts of economic life. The growth of global companies, new information technologies and the development of the international capital market have brought the need for international, globally valid and acknowledged accounting norms. Companies around the world are trying to approach international accounting standards or they directly implement them. The purpose of this article is to present the analysis of accounting problems related to the development of new accounting rules and guidelines throughout the world and to provide suggestions for professional accounting education.

Reporting, especially financial statements like balance sheet, profit and loss statement and cash flow, provides the sources of input information for financial management, financial analysis, planning and controlling. The authors, for example, Bolivar (2012) and Grosanu (2011) in their contributions

are exploring an important relationship between financial management and financial accounting. For a financial analysis, the comparability of the data provided by financial statements are of the highest importance; however, it is often very difficult to achieve complete comparability. Comparability can be evaluated within a time series of one company, in comparison with other entities in the same country, or within an international context. Even within the European Union, the biggest obstacle to the comparability of financial statements is the fact that the guidelines of individual countries do not have the character of international legislation. They are implemented by means of the national legislation of each member state. Due to this, the financial reporting of the individual member states reflects the specifics following from the differing economic, legal and historical situation.

From the literature review in this area (for ex. Epstein and Jermakowitz, 2010) it is visible that International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) are becoming the most important financial reporting standards in the world. Application of IFRS requires a high level of professional knowledge by accounting staff. Currently, there is significant progress in accounting throughout the world and accounting is becoming more sophisticated. Analysis of these developments and the interchange of experience are in progress in various countries. New methods and accounting applications, as well as the practical application of accounting principles, are being developed. Shift to International Financial Reporting Standards (IFRS) is more and more discussed over the EU and other countries as IFRS are a summary of the best accounting procedures and experience of the accounting profession and users requirements upon the range of publicly notified information. (Struhařová *et al.*, 2011).

The US GAAP – American Generally Accepted Accounting Principles – is a unified system of the national regulation of accounting, which consists of accounting standards of financial accounting (there are about 140 of them) and a number of other materials issued by various American professional institutions (IASB, 2010). This system of accounting principles meets the demanding requirements of all world stock exchanges and that is why there is the effort to implement the US GAAP as the tool of global harmonization of accounting. Many of the principles are absorbed in the accounting systems of a lot of countries (the Czech Republic among others) and many of them found their way into the IAS/IFRS as well. For literature review of the topic of accounting harmonization and the compliance with IASB standards see Mechelli (2009).

In the context of the international development of accounting it is important to consider the following question: What are the basic function of accounting and the main role of accountants? Accounting is a service – a profession that provides reliable and relevant financial information useful in making decisions. The function of accounting is to provide information about elements of financial statements to users and accounting is a process used to report on the activities of organizations. Financial statements must be comparable and reliable. External users need to understand the rules and assumptions used by companies when constructing financial statements.

Within the Macintosh (2009), accounting language is not a transparent medium but rather is the material used to manufacture accounting truths. It sees accounting truths as contingent upon linguistic doctrinal accounting discourses currently ceded place of privilege by standard setters and upon the subjective consideration of accountants then they produce reports.

Knowledge of the predictive ability of financial statements is necessary for useful communication among accounting information users. As accounting is undergoing continuous development both in Europe and in the world, it must react to the development of national and multinational economic environments.

Nowadays, the value of education and the demand for university education are rising. Consequently, new education forms are invoked by changes in position of schools within the system, by the change of graduates' profile, and of teachers and students position. The main goal of this article is to identify options for development of accounting education. The goal of accounting education is to produce competent professional accountants who can meet the expectations of their communities and the challenges they will face in the future.

Problem formulation and methods

The paper discusses issues which elaborate on the following basic ideas in detail:

- Description of the environment of accounting, including the effects of generally accepted accounting principles (GAAP), IFRS and international business, and ethical considerations.
- Companies are increasingly asking for college graduates with the knowledge of accounting not only in the national environment but also in the context of international accounting.
- To find accounting experts is still quite a big problem in Europe.

The profession of an accountant is highly significant for operations of each organization, and a proper performance of the job is very demanding. Accountants work in an ever-changing environment, the knowledge necessary for performing their job is continually updated, and the demands placed upon them are rising. The increase in the international interconnection of economies requires more and more expertise in various accounting systems and the knowledge of national GAAP are not sufficient any more. Countries adopting IFRS need to educate and train their professional accountants so that they are able to interpret and apply these standards in a consistent manner. Development of the relevant expertise to interpret and apply the various measurement and disclosure rules contained in the IFRSs is important for adopting countries given one of the objectives of IFRS is to have comparability across countries (Chand, 2012). Application of IFRS requires a high level of professional knowledge by the accounting staff of any entity trying to apply these standards (Mechelli, 2009).

If accountants are supposed to meet the demands placed upon them, they have to concentrate on continual development of their skills and professional competences, which is also reflected in the requirements concerning qualifications of professionals in this field. Specialization in the field is becoming indispensable. Companies are

increasingly asking for college graduates with the knowledge of accounting not only in the national environment but also in the context of international accounting. The gradually rising qualification requirements placed upon the profession of accountants (the requirement of the Institute of Accountants Certification in the CR based on the requirement of the International Federation of Accountants) have to be implemented in study programs of universities and colleges. The specialized studies deal with the issue of accounting education, see, e.g. Harold (2012) and Hong Zhu (2011).

One of the significant issues the institutions providing education of accountants, such as colleges or professional training organizations, have to solve is the content and the range of the training programmes. One of the important areas are the International Financial Reporting Standards (hereinafter IFRS). However, there is the question to what extent the IFRS should be included in the obligatory part of education.

The solution is based on the analysis of theoretical knowledge concerning the accounting systems in the Czech Republic, the examination of the situation on the labour market, and the focus on the accounting education.

To obtain the information necessary for complex processing of the issue some of the basic methods of scientific research were used. The methods usually complement each other and, in consequence, overlap. We used methods of qualitative research predominantly based on the exploration of relationships between individual facts which affect the range of education, especially the methods of induction and deduction, analysis and subsequent synthesis. Two studies that focus on education in the field of IFRS and the preferences of university students of accounting were performed and have been presented in this paper.

The relationship between the National GAAP and IFRS

Accounting in the Czech Republic is regulated by the state through the Ministry of Finance of the Czech Republic. All businesses (except those registered at European capital markets) keep accounts and report in compliance with national GAAP. The Czech Republic, as an EU member state, has the obligation to use the fourth and the seventh European Union directives (as amended) when setting the national GAAP. The accounting entities that are trading companies and issue securities at the regulated market for securities in EU member states have to use the IFRS regulated by the legislation of European Communities to produce their financial statements. Another type of companies which use the IFRS are those that produce financial statements for the purpose of consolidation for parent companies, ask for a loan from foreign banks, present data to potential investors but primarily produce the statement in compliance

with the national GAAP. The International Financial Reporting Standard for Small and Medium-sized Enterprises, which became effective in June 2009, have not been included in the regulation of Czech accounting yet.

The primary conception of accounting are the Czech GAAP, but the knowledge of the IFRS is necessary for many companies.

The differences in accounting and reporting procedures of some items according to Czech GAAP and the IAS/IFRS lead to some changes. An enterprise can achieve profit within one of the reporting frameworks and loss within the other one; also the balance sheet totals, the value of assets or liabilities can be highly differing (Struhařová *et al.*, 2011). The application of the IAS/IFRS affects the way in which assets and liabilities are reported and measured and in which the profit and loss is reported. The differences between the Czech GAAP and the IFRS are numerous and their detailed identification would go beyond the scope of the paper. They are found in the assets recognition, as in accordance with the Czech accounting an item is recognized as an asset in the balance, but in accordance with the IFRS it is an expense in the profit and loss statement (e.g. start-up costs); or, in contrast, an item is not recognized as an asset in the Czech accounting (lease of a lessee). This type of a difference often appears within other items as well. Other differences occur in the recognition of assets and liabilities, e.g. for long-term assets the IFRS use the current value, which is not reported according to the Czech GAAP, and there are also differences in different costs directly attributable to bringing the asset to condition necessary for it to be capable of operating.

A financial statement created in compliance with the IFRS differs from a Czech financial statement mainly by its purpose. Due to the different principles and priorities on which both of the systems, CAL and IFRS, are based, there is a range of conceptual and specific differences (Ministry of Finance CZ, 2005; Ernst & Young, 2009; PriceWaterhouseCoopers, 2012; IASB, 2012; Šteker and Otrusínová, 2011; Strouhal, 2009). Its main aim is to provide information for economic decisions of shareholders and investors and not for the calculation of a tax base (Ficbauer, 2010). These statements also have different forms – the IFRS only define the minimum requirements for the published information, the structure of the financial statements is not obligatory. Moreover, the elaboration of a statement is conducted in a different way as the preparation of a statement in compliance with the IAS/IFRS requires expert estimates and opinions with respect to the basic accounting principles. It demands the transactions to be captured consistently according to their economic basis and not in agreement with a legal norm, if that is different.

The financial analysis serves for the purpose of using accounting information to compare

enterprises. The question is to what extent statements of enterprises on an international scale are comparable. Accounting regulations (including the US GAAP and the IFRS) are quite loose in many cases (e.g. accounting depreciations) which leads to content differences among the same items of financial statements of different enterprises and this makes comparison of the data provided in financial statements difficult. It is easier to conduct analyses of data from financial statements of foreign companies using the statements prepared in compliance with globally acknowledged accounting standards than using statements prepared in compliance with national GAAP of the country in question. That is the purpose of the IFRS which attempt at the maximum possible international comparison.

To find accounting experts is still quite a big problem in Europe. Neither the crisis has changed the situation; a company will always need a skilful and experienced accountant. The research conducted by Robert Half International under the title *Global Financial Employment Monitor* of May 2009 showed that 51% of companies in the Czech Republic and up to 60% of companies in Europe have difficulties finding experts in this field (Robert Half International, 2009).

The profession of an accountant is usually strongly connected with the knowledge of national legislation (on accounting, wages, and taxes), therefore, the employment within Europe is difficult – a successful accountant would have to be familiar with the legislation of individual countries. It follows that it is important for financial and accounting professionals to improve their qualifications continually to keep up with the demands placed on their job.

Professional demands placed on accountants

The achievement of high level of accounting qualifications is defined in the documents of the European Union (8th Directive), the recommendations issued by the UN (*UNCTAD/ITE/EDS/9 Guideline on National Requirements for the Qualification of Professional Accountants*), and the requirements of the International Education Standard for Professional Accountants (IES) issued by the International Federation of Accountants (IFAC). Then we are testing the opportunities of teaching accounting according to IFRS, it is seen that IFRS give many opportunities. They show the way how the teaching process could continue (Kovaníková, 2005).

Currently, there are no standardized requirements for workers performing the profession of an accountant in the Czech Republic. There are two professional organizations, the Association of Accountants and the Chamber of Certified Accountants, which provide a system of education called the certification of accountants which is in compliance with the above mentioned international documents. The aim of the professional education system is a professional specialization, the acquiring

and practice of methods and procedures used in practical accounting, the mastering of applied theoretical knowledge. Although during the period these two institutions are active there have been efforts to change the certification into 'official qualification', this has not been achieved. Therefore, the enlistment in the professional education system is based either on the individual initiative of the accountants themselves, or on the requirements of companies who ask their accountants to acquire the certificate.

Nowadays the value of education is increasing, and the demand for university education is rising. Consequently, requests for new education forms are growing invoked by changes in position of schools within the system, changes of graduates' profiles, changes of teachers' and students' positions.

The goal of accounting education is to produce competent professional accountants who can meet the expectations of the communities they serve as well as the challenges they will face in the future. International Education Standards (IESs) are designed to cultivate and reinforce an attitude of lifelong learning so that professional accountants can effectively maintain competence throughout their careers. This attitude is essential in an environment of the ongoing change.

The standards provide important assistance to the IFAC (International Federation of Accountants, 2012) member bodies, which are generally responsible for either establishing or implementing education standards and requirements at the national level. They are also designed to assist those responsible for accounting education to develop the skills and strategies professional accountants require.

The IFAC has released the IESs to establish the global benchmarks for education and development for professional accountants. The standards are a critical component of IFAC's overall efforts to ensure high quality performance by professional accountants worldwide. Developed by IFAC's Education Committee, the standards are designed to achieve quality and consistency in global accounting education. They prescribe the essential elements of education to become a professional accountant and the ongoing education requirements necessary to remain competent. All IFAC member bodies are expected to comply with the standards.

RESULTS

The System of Certification in Europe was developed in co-operation with ACCA (U.K.) and Royal Nivra (Netherlands) and is based on the International Education Standards of IFAC and the 8th EU Directive (IFAC, 2012). The System of Certification in the EU has had a new scheme since July 2008:

- Certified Accountant.
- Expert.

The system was introduced without any support by law, which would make certification mandatory for the performance of accountancy profession. The system, however, meets the need of differentiating the quality of services and competence of accountants on the market.

The new concept of "Certification of Accountants in the Czech Republic" was created in 2008. The principal change in the conceptual structure of the new system is the 2-level concept (Certified Accountant and Accounting Expert). This model reflects the modern trends in the qualification conception of the accounting profession not only in practice, but also with regard to higher and post-GSE education.

Predominantly, the subjects focusing on the issues of the IFRS can be studied at colleges and universities only. Secondary education institutions with economic specialization usually concentrate on the national legislation, the subject of the IFRS is included rather exceptionally (see the Assessment of the questionnaire survey conducted within project 'The Cooperation with Regional Colleges, Higher Secondary Schools, Vocational Schools, and Secondary Schools with Economic Specialization on the Accounting Education', University of Economics, Prague, 2008).

Research conducted by the Faculty of Economics and Administration of the Masaryk University in Brno in January 2010 included 30 schools with economic specialization, out of which 17 were public schools and 23 were private schools. The objective of the research was to find out what types of schools teach subjects focusing on the IFRS. The results are presented in Tab. I.

I: *The comparison of public and private colleges*

The comparison of public and private colleges and universities		
Colleges	Public	Private
In total	17	23
Subjects are included	12	3
in the Bachelor study programme	7	3
in the Master study programme	12	3

Source: Authors' outline

The research proved that especially public colleges concentrate on the IFRS, within the Master study programme. The above mentioned facts show that the proportion of colleges and universities providing education in the field of the IFRS is not sufficient as the knowledge of the IFRS should be taken for granted for each college graduate.

Preferences of students from Czech secondary schools and university students in their professional life used to be tested (Flešková *et al.*, 2011; Švarcová, 2011). The similar problem was solved in the other research that was conducted at the Tomas Bata University in Zlín, the Faculty of Management and

Economy, during the summer term of 2009. The research focused directly on the requirements of students concerning the range of subjects. An internal questionnaire survey showed that students themselves feel the need to learn more on the issue of accounting and are interested in the expansion of the range of subjects with professional focus on international accounting. In total, 422 students from 1st to the 4th years of economic specializations participated in the research. The students were asked a series of questions regarding their interest in the study and the practical use of the knowledge about accounting. Most respondents would welcome the expansion of subjects on accounting and taxes. One of the questions attempted to explore the interest of students in becoming certified accountants or accounting experts in their professional career. A half of the students were interested, the other half were not. Further research found out that nearly 80% of the students are interested in studying subjects focused on the IFRS.

The globalization of economy and the interconnection of international markets demand that accounting qualifications are transferrable across the national borders. Therefore, corresponding study programmes should be reflected in college curricula. It is necessary to review and update the curricula of accounting courses with the aim to implement the international accounting principles in them consistently and to involve practice-oriented subjects in Bachelor studies at colleges. The curricula of basic accounting courses would include basic principle of the IAS and the IFRS, including a number of case studies, so that the course graduates are better prepared for their jobs as accountants, able to understand financial statements and accounting methodical principles. Special attention has to be paid to the improvement of the students' ability of critical thinking and also ethical aspects have to be involved.

To improve the capability of colleges and universities to teach accounting with the inclusion of international elements, it is suitable to use educational programmes or projects focusing on the development of accounting courses and the training of teachers. In the Czech Republic, there was a project at the Tomas Bata University in Zlín which was financed by the European Union from the Operational Programme Education for Competitiveness under the European Social Fund within the framework of the priority axis Tertiary Education, Research and Development. The aim of the project titled *Education in the field of accounting and taxes* was the expansion of the range of education on accounting and taxes in the Bachelor study programme and the provision of the training for academic workers. Within the three years of implementation (until February of 2012) eight new subjects were created, including a subject taught in English and basic of international accounting. The new subjects are: Basics of International Accounting, Accounting and Tax Software, Wages Accounting,

Financial Accounting II, Taxes individual businessman, Taxes 2, Taxes 1 and Accounting in English. The next research was conducted by the Faculty of Management and Economy, Tomas Bata University in Zlín and was held in the year 2011. A total of 463 students attending the new courses responded to post questionnaire and 56 of them passed the subject Basics of International Accounting. Statistical analysis reveals that this course (about IFRS and US GAAP) is effective and very important for 84% students, 24% of them would like to work in the area of IFRS. 61% of all 463 respondents want to be the accountants or accounting experts in their professional career. 52% of students responded the subjects focused on the issues of the IFRS are useful courses at universities with economic specialization.

DISCUSSION

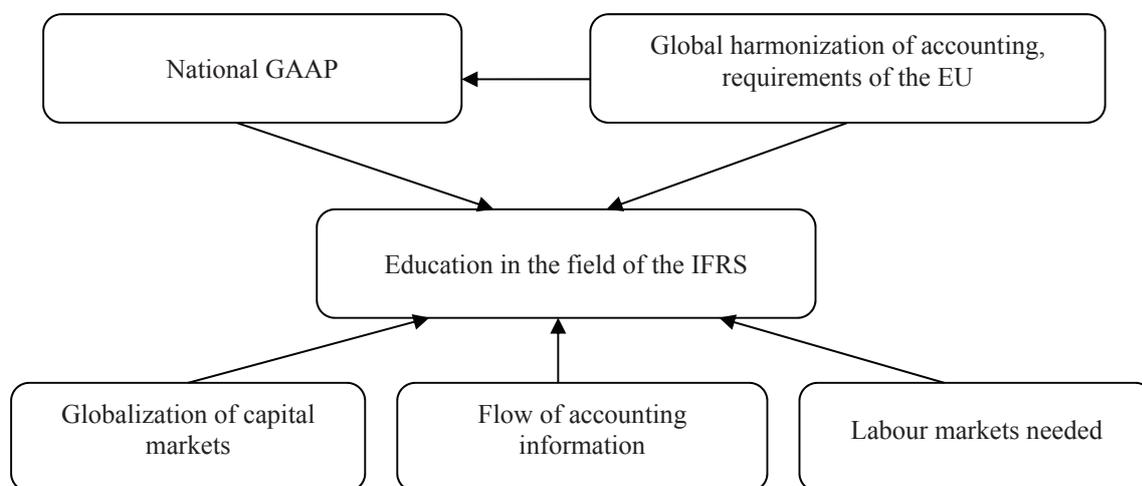
The analysis of all facts which affect the education of accountants on the IFRS shows that the education in this field is essential. Its summarizing overview is presented in Fig.1.

The practical use of the IAS and the IFRS critically depends on the availability of qualified accountants and auditors but their education is facing many obstacles. The fact that the understanding of accountants is often limited to national standards represents an obstacle to the support of global movement of capital and financial stability. This is the consequence of globalization and liberalization of capital markets for accountants and auditors. They are not supposed to work only on these markets; they also have to ensure their effective working. Moreover, globalization requires that one or more accounting qualifications are transferrable across the national borders. An accountant who has already been qualified by an acknowledged professional organization perceives it as hard if he or she has to be prequalified by another

institution if he or she wants to perform the job across the border. Accountants from developing countries have even more difficulties if their qualifications are not acknowledged abroad and the multinational companies and international agencies that make business in their countries rely on foreign accountants. A qualification framework could help the developing countries to establish such qualifications that would enable their citizens to achieve standards comparable to standards elsewhere.

The authors on the basis of the analysis suggest that the educational process in the field of international accounting has developed the idea that knowledge of presentation of the financial statements is a fundamental requirement of communication between the users of accounting information as well as internationally. The education in this area should focus on the basic directions of accounting harmonization in Europe and in the world, familiarization with EU directives and individual IFRS standards for the content of individual confrontation with Czech legislation in terms of incompleteness of this process. The aim of education is to achieve a complete picture accounting issues in integration processes of the Czech Republic into the European Union and strengthen the skills of using accounting practices in the scale of transnational relations. Part of the course would be the interpretation methods of recognition and measurement of financial statements in accordance with IFRS, the financial statements of selected standards and characteristics.

The definition of responsibility for accounting education, whether in the national or international context is the subject of long discussions with virtually no specific result. Accounting profession is not defined by any legal standard, as, for example, in the case of Auditors. All efforts that are still in the education of accounting emerged in the Czech Republic, such as the system of certification of



1: *Education on the IFRS*
Source: Authors' outline

accountants, found no support in the law and remained at the level of subjective accounting decisions, or to become a part of corporate training. Responsibility could carry professional organizations that are able to secure additional accounting education, but over the years have not received such authority that they managed to enforce this decision.

Another topic for discussion is the question to which extent the US GAAP should be included in the education of accountants in Europe. Let us consider the current developments in the process of harmonization between two globally acknowledged sets – the IAS/IFRS and the US GAAP. The development is oriented towards the convergence with the aim to achieve agreement, not only convergence, between both sets. The US GAAP are very detailed and comprehensive, the IAS/IFRS are more succinct. In spite of many agreements, there are still a lot of differences between the two systems. The main difference between the IAS/IFRS and the US GAAP is that the US standards are the accounting national systems of the USA, i.e. a system created for the US environment, whereas the IAS/IFRS enter the international environment, which is still not ready for their acceptance. The same applies to the environment of the Czech accounting.

CONCLUSION

The purpose of this article was to present the analysis of accounting problems related to the development of new accounting rules and guidelines throughout the world and to provide suggestions for professional accounting education. These conclusions in the area of accounting harmonization and its education should be further compared with a similar survey in the area of study program and the status of IFRS in them and certainly with the situation in other EU countries. Thus, this will be the subsequent focus of the research initiated in this area.

The International Financial Reporting Standards are a result of a combination of the best accounting procedures, experience in accounting and requirements of users regarding the extent of published information. Their purpose is to enhance the comparability of the reported information on the financial performance and position of various companies. The impact of the international

accounting on Czech enterprises will rise and a timely solution of the arising issues is what could bring a considerable competitive advantage to enterprises in the future. The enterprises which will not be able to provide the proper and comparable financial information based on the IAS/IFRS will lose the trust of capital and financial markets. In contrast, a good quality financial reporting will make access to financial resources easier.

Accounting education has to accept the idea that the awareness of the information capacity of financial statements is the essential condition for the communication among the users of accounting information. The education has to focus on the process of accountancy harmonization, and within this process on the confrontation of the contents of the standards and the national GAAP. The aim of education in international accounting is to provide accountants with a general overview of international accounting standards and international accounting as a whole. It is necessary to continually develop the idea that the knowledge of the information capability of financial statements is a vital condition for the communication among users of accounting information, also at international level. Therefore, it is essential to explain the main differences between national legislation, international European standards and US standards, with respect to the expected convergence of American and European principles. The objective of the global harmonization of accounting is to render accounting and reporting methods clearer and more understandable for investors both in the USA and in Europe. The result should be the combination of positive features of both systems, which would bring more positive conditions to both markets. As we can see, the development of accounting, its global convergence, and the adjustments of the accounting education system are a never ending process and they will continue to demand proper attention.

A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives the advantage of competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards in all professional and business relationships.

SUMMARY

The transition from national GAAP (generally accepted accounting principles) to International Financial Reporting Standards has been accelerating recently. Czech national legislation does not provide adequate instruments for financial reporting in the international environment, especially in terms of comparability of accounting information. Accounting profession is characterized by increasingly higher requirements for qualifications of accounting employees. New requirements for reporting bring along new demands on education and training of employees in the field of accounting and financial management.

International institutions defining the qualifications for accounting are documents of the European Union (8th Directive), recommendations published by the UN (UNCTAD/ITE/EDS/9 Guideline

on National Requirements for the Qualification of Professional Accountants), and requirements of the International Education Standards (IES) for education of certified accountants issued by the International Federation of Accountants (IFAC).

There are no obligatory standards in the Czech Republic; the requirements concerning education of accountants depend on requirements of employers. The research has shown that current accountants have a lot of knowledge of national legislation, while the knowledge of international standards is not yet common practice.

International accounting standards (IFRS and US GAAP) are not lectured at all universities and colleges (both state owned and private) and if so they are mostly offered within master's studies. The survey showed that students (approx. 80% of respondents) would welcome more lectures on accounting issues, especially international standards.

The lack of generally educated accountants is also reflected in the labour market: about 50% of companies have difficulty finding quality professionals.

Constant education of accountants is highly important and also demanding; it is a field that develops constantly and has to respond to requirements of legislation, practice as well as international environment.

Acknowledgement

This paper is one of the outputs of Grant Agency of the Czech Republic (GA CR) project No. 402/09/0225 "IAS/IFRS Usage in Small and Medium-sized Enterprises and its Influence on Performance Measurement. This paper was carried out with the financial support from the European Social Found OP VK "Education in Fields of Accounting and Taxes" No. CZ.1.07/2.2.00/07.0050.

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