Adoption of IFRS and Its Impact on the Financial and Management Accounting: A Case from the Czech Republic

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Abstract

Latest research indicates that the convergence of financial and management accounting has been emerging in developed countries. Financial reporting of transitional countries is heavily influenced by tax legislation, which impairs the usefulness of financial statements for decision-making of external users. Due to weaknesses of financial reporting regulation, entities reporting under local standards are forced to remove those lacks at least on the management accounting level in order to prepare information needed for internal decision-making. Separate coexistence of management and financial accounting is therefore inevitable.

The implementation of IFRS into EU law system has brought new quality to financial reporting, despite the necessity to prepare information according to IFRS levies additional costs. To lower the cost burden, IFRS are becoming the leading principles of management accounting. The paper assumes that IFRS are the driver for convergence of financial and management accounting in the transitional countries (e.g. in the Czech Republic).

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Introduction
The fail of communistic regime in the late 80’s has brought many challenges to all areas of the society. The economic and business aspects of transformation from a centrally planned economy to a standard market economy were on the top of the list in the Czech Republic and other Central and Eastern European countries as well. However, the “revolution” of Czech accounting has not occurred yet. Despite the amended legislation respected new economic organisation, the general perception of functions of financial reporting and accounting did not change. Financial statements and other information reported by companies to the external users are still hugely subordinated to the fiscal and other purposes of state authorities. This was the main reason for the sharp distinction between financial accounting for external users (or better said tax-financial accounting for state authorities) and managerial accounting for internal users after 1989.

Some positive steps have occurred in connection with the accession of the Czech Republic to the European Union together with the introduction of the International Financial Reporting Standards into the EU legislation. The implementation process of IFRS into the EU acquis communautaire is a radical change. The shift from out-of-date accounting directives to modern worldwide-accepted financial reporting system has not affected legislation only. The more significant is the impact preparers and users. The implementation of IFRS provides external users with a potential source of high quality, comparable and transparent information to assess the company’s financial position, performance and other important financial features. Preparing of financial statements in compliance with IFRS requires more knowledgeable prepares than in the case of financial statements according to the Czech Accounting Standards. For the comparison, the latest printed edition of the Czech translation of the IFRS contains of almost 2,500 pages; CAS comprise about 100 pages.

It turns out that the IFRS adoption has been leading to a greater interconnection between financial and internal reporting in the context of the Czech accounting practice. The necessity to prepare information according to IFRS levies additional costs on the companies. However, IFRS are regarded as useful not only for external users, but also as a relevant basis for internal reporting, control and decision-making. Therefore, IFRS principles are incorporated into corporations’ information systems. Information based on IFRS has gradually been serving to various users for their different purposes.

The aims of this paper are:
- to outline the basic features of the Czech accounting regulatory system;
- to explore usefulness of financial statements and other information prepared in compliance with the IFRS both for external and internal users; and
- to analyse the convergence of financial and managerial accounting in general and in the Czech Republic in particular.

1 Background
1.1 Literature overview
The IASB’s Framework for the Preparation and Presentation of Financial Statements asserts that
"The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions" (IASB, Framework, par. 12).

Despite the fact that IFRS are primarily intended for external users and the reporting of information for internal users is beyond the scope of the Framework, the function of accounting as a system for recording and providing information useful to different users can be extended for the purpose of this paper. The accounting as a technical language (Chambers, 1974, p. 298) of communication within a particular business entity and as a supra-organisational system (Chambers, 1974, p. 299) of communication among various entities has to react to the changing incentives both from the internal and external environment in order to meet informational needs of the users of accounting information.

The entities have been accommodating to those stimuli in miscellaneous ways. Before the industrial revolution, the accounting was a one-way, integral system. The specialisation of production and its rapid growth raised the claims for capital accumulation and external sources for the financing of large investments. This broke the accounting into two divided modules – financial and management accounting:

"The separation of running business by company management and informing external even unfamiliar investors was behind the divergence. For controlling purposes, company management needed detailed information on cost structure and profitability of products, business units and investments, not only afterwards but also prior to decisions. For external investors, new standardized method was needed to inform on the financial performance of companies and to discharge managerial accountability to outside parties" (Taipaleenmäki and Ikäheimo, 2009, p. 7).

As far as management accounting concern, according to Kaplan (1984, p. 391) the demand for internal purposes arose already in the middle of the 19th century. Management accounting techniques and procedures were significantly evolving and

"the cost accounting, capital accounting, and financial accounting systems were kept separately, with the cost accounting system typically designed for and operated by the manufacturing departments" (Kaplan, 1984, p. 396).

The peak of the evolution of management accounting was reached in 1923, when Clark published famous Studies in the Economics of Overhead Cost. His “different costs for different purposes” has prevailed as the cornerstone for cost and management accounting for decades:

"... there have been virtually no major innovations by practicing managers or management accountants during the most recent 60 years to affect contemporary management accounting thought" (Kaplan, 1984, p. 401).

The Evolution of Management Accounting (Kaplan, 1984) together with Johnson’s and Kaplan’s Relevance Lost (1987) were the impulses for a rapid development of new innovative techniques helping the managers especially in their strategically oriented decision-making. Progress in modern information
and communication technologies assists in meeting increasing and changing (Ashton et al., 1995; Hopper et al., 2007) informational needs of the users (Hoque et al., 2001; Mendoza and Bescos, 2001). With growing complexity of business, the specialisation of functions of management accounting systems contributed to the strengthening of the management accounting as a separate information system. The divergent tendency became so strong that it has been talked about the duality in relationship between financial and management accounting (Jones and Luther, 2005). On the other side, the management accounting technique became increasingly integrated (Iltner and Larcker, 2001). The international convergence of management accounting procedures is a consequence of global competition, enhancing information technology and other factors (Granlund and Lukka, 1998). The management accounting in the last two decades of the 20th century experienced the great florescence while moving from the orientation on “reduction of waste in business processes” to the focus on “creation of value”:

“The focus of management accountants shifted to the generation or creation of value through the effective use of resources” (Abdel-Kader and Luther, 2006, p. 234).

The management of value creation is followed by the change of traditional tactically oriented management accounting to broadly defined and strategically oriented accounting using innovative technique such Economic Value Added, Activity Based Costing/Management, Customer Time Life Value, Value Based Management, Balanced Scorecard and other value-based performance measures (Boulianne, 2007; Agliati and Micheli, 2007; Hoque and Zawawi, 2009; Claes, 2009; Gimžauskiene and Valančienė, 2009). Innovative management accounting techniques are viewed as a universal tool for satisfying different purposes for all interested parties. The managers administer internal business processes having on mind the value creation goal. Thus, they aim to add new value not only to the shareholders (owners), but they respect needs of various groups of stakeholders (customers, employees, etc.), too.1 This could be perceived as the intersection, on which the management accounting systems and internal reporting interface the financial accounting systems and reporting for external users. This is the starting point of the integration process when management and financial accounting have been merging into one system again.

The development of financial accounting is no less interesting as the lifetime course of its management counterpart. The British Interest Act from 1839 allowed lending of money for interest to be legal, which boosted expansion of business and trade. Financial statements prepared exclusively for owners became insufficient for informing external providers of capital. External lenders (usually bankers) were interested in information helpful in assessing the entity’s ability of paying borrowed money back. Understatement of net assets and profits was perceived as legitimate measure for protection of creditors’ claims. Conservatism (prudence) started to be the guiding principle in preparing financial statements. The stewardship function grew on strength after Great Depression (Belkaoui, 2004, p. 8) by the establishment of the Security Exchange Commission as a reaction to “Black Thursday” crash. For some reasons (Zeff, 2007), the historical costs were promulgated as the fundamental measurement basis ensuring the protection of investors and stewardship function in publicly traded companies.
Similarly to management accounting, the tendency for international integration (or rather harmonisation) of financial reporting has emerged. The first major attempt to harmonise guidance on financial accounting and reporting failed, as Fourth Council Directive was too “politically plural”:

“In order to be to obtain agreement, it was necessary to include a large number of options in the Fourth Directive and there are over 60 points on which countries were able to exercise a choice” (Watts et al., 1979).²

The real convergence and harmonisation began with the set up of International Accounting Standard Committee in 1973. The accounting profession reacted on the steady shift from the stewardship function of financial accounting (oriented mainly on the past course) to the forward-looking orientation and the need of reliable and comparable information useful in decision-making regarding the allocation of scarce resources not only on the national level, but also in worldwide context. In the first phase, the use of IAS/IFRS was on a voluntary basis:

“The findings show that companies have voluntarily responded to pressure to produce more comparable financial information,³ and that standard setters and regulators have a key role to play in promoting the harmonization process” (Tarca, 2004, p. 86).

Study by Christensen et al. (2007) has proved similar results regarding the voluntary adoption of IFRS. In the next step, financial reporting in compliance with IFRS became mandatory, as International Organisation of Securities Commission recommended its members to promote the usage of IFRS as a primary reporting basis:

“...the Presidents’ Committee recommends that IOSCO members permit incoming multinational issuers to use the 30 IASC 2000 standards to prepare their financial statements for cross-border offerings and listings” (IOSCO, 2000).

Beside IOSCO’s resolution, the second driver promoting further convergence of financial reporting was the approval of the “EU Financial Reporting Strategy: the way forward”. The Strategy concluded that

“there is a strong pressure towards the convergence of accounting standards, raising the importance of international standard setting and thereby encouraging national standard setters to cooperate more closely” (CEC, 2000, par. 5).

Following the goals set up by the Lisbon European Council, the Strategy proposed that

“all EU companies listed on a regulated market should be required to prepare consolidated accounts in accordance with IAS” (CEC, 2000, par. 16).

The proposal came about the reality in 2002, when Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards was adopted. New strong position of IFRS within European and other important world stock exchanges has been the accelerator for a further convergence of financial reporting standards. The most important is of course the Convergence Project of the IASB and the FASB. The process can be described as the emergence of single set of standards for preparation of financial statements for external users:

“At their joint meeting in Norwalk, Connecticut, USA on September 18, 2002, the Financial
Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) each acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, both the FASB and IASB pledged to use their best efforts to (a) make their existing financial reporting standards fully compatible as soon as is practicable and (b) to coordinate their future work programs to ensure that once achieved, compatibility is maintained” (IASB, FASB, 2002, p. 1).

The aforementioned integration tendency of management accounting techniques throughout the world and the global convergence of financial reporting are explained variously. The complexity of business world, innovations and global competition are reasons for integration of management accounting procedures; higher international mobility of capital, integrating capital markets and the effect of Euro are the drivers for convergence of financial reporting standards. From my point of view, those processes are mutual. They are not only interconnected, they are the same phenomena, however and unfortunately labelled by different names. I suspect that esp. researchers are eager to find new, provocative stickers in order to sell already sold product once again (see nice parallel depicted by Gervais and Levant, 2009).

The “Berlin Wall Fall” and subsequent integration of the European Union and the opening of China and other untraditional markets had released gates of world business. As a result, the companies have been expanding worldwide and the investors are not restricted to put their money only into the “local projects”. The development of ICT supports the linking of national capital markets into one global market. Moreover, it also enables more effective international management of subsidiaries within the concern structures. The management accounting is influenced by the financial reporting requirements (Kaplan, 1984; Nathan et al., 1996) on the one hand. On the other hand, the stimuli from management accounting have being incorporated in the financial reporting (Stewart, 1991).

No wonder some authors have started to cope with the terms like “integration of financial and management accounting systems” (Angelkort and Weißenberger, 2009) or “the convergence of financial accounting and the management accounting” (Taipaleenmäki and Ikäheimo, 2009). The question is not to which extent to converge or integrate (Hemmer and Labro, 2008), but when the convergence or integration will be finished as:

“contrary to the standard textbook proposition, properties of management and financial accounting systems are not independent” (Hemmer and Labro, 2008, p. 1209).

Alternatively:


1.2 Model development and proposed hypothesis

For long time, the accounting systems have been characterised by divided setup when stand-alone systems are ensuring the information independently for external and internal users. Processing of data into information, which is requested by the users for their informational needs, under separate financial
and management accounting system is formalised in Figure 1.

![Figure 1: Model I – Dual Accounting System](image)

- **FAS** … financial accounting system;
- **MAS** … management accounting system;
- **Outputs 1** … tax reports;
- **Outputs 2** … financial statements;
- **Outputs 3** … budgeting, planning, performance measuring, control, etc.;
- **Users 1** … tax authorities;
- **Users 2** … owners, creditors, trade partners, etc.;
- **Users 3** … managers.

Progress of business environment in recent years can be characterised by gradual intergrowth of originally separate systems of financial and management accounting into one integrated structure. There are plenty possible ways of integration, e.g. on data recording level or on calculation level. Connection on output level or even on users’ level appears to be also feasible, but nowadays it seems to be just a theoretical variant. The potential alternative for integration up to “output level” is suggested by Figure 2.
Separate accounting systems serving only for one specific users’ group have being replaced by one accounting system assisting wide range of users in their making economic decisions. It is time for one accounting for different users and for different purposes employing various integrated techniques. This process has already launched, as the drivers of convergence have started to dominate those of divergence (Granlund and Lukka, 1998).

It is argued that IFRS is an important trigger for the shift to integrated accounting systems, as

“IFRS focus on providing decision support for investors […]. In consequence, IFRS are much more suitable for internal decision-making and control purposes. […] Secondly, IFRS rely ... heavily on information provided by the managerial accounting systems ...” Angelkort et al. (2008, p. 4-5).

However, the integration of both modules to the integral system can take some time and there are some doubts whether the process can be successfully completed.

“These two separate fields are currently converging but not converged, i.e. there is already an intersection where these disciplines are heavily overlapping, but are and potentially will never be fully (re)-integrated” (Taipaleenmäki and Ikäheimo, 2009, p. 3).

In next section, I will try to explore if the integration of financial and management accounting occurring in developed economies is relevant for transitional countries, too. I assume that IFRS implementation is a trigger for this process. Since transitional countries suffer from low quality of financial reporting, which is influenced by the tax law in significant manner, IFRS can be viewed by companies as a useful tool for enhancing the quality of financial statements for external users and for internal reporting as well.

2 Regulation of accounting and financial reporting in the Czech Republic
This part of paper focuses on delineating current regulation of financial reporting in the Czech Republic and on revealing some evidence confirming the general tendency to integration of accounting both for
external and internal purposes as outlined in the literature overview.

2.1 Requirements of legal framework

The Czech financial reporting regulatory framework can be classified under “transitional economy accounting system oscillating between the European continental approach and Anglo-American approach to accounting regulation”. This mixture of approaches deserves the denotation by a label “hybrid system” (Žárová, 2007). The main means of accounting regulation is the code law. The Czech accounting and financial reporting is regulated by:

1. Inland legislation, i.e.:
   a) Act No. 513/1991 Coll., Commercial code;
   b) Act No. 563/1991 Coll., on accounting;

Accounting regulatory system remains under regulation of the state with little influence from the private sector and/or accounting profession sector.

“Regulation of accounting remains traditionally conducted by governmental institutions only and the position of professional independent accounting bodies is nil or very weak” (Žárová and Mejlík, 2009).

The positive progress was expected with the implementation of the European law into the Czech legal framework. The chief source of guidance comes from the following documents.

2. Legislation of the European Union, i.e.:
   a) Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3) (g) of the Treaty on annual accounts of certain types of companies (incl. subsequent amendments);

The Directives were incorporated directly into the Act on accounting, but with little impact on the quality of the financial reporting of the Czech companies.

The implementation of IFRS is perceived of a greater importance. To contribute to a better functioning of the internal market, the European Union undertook some measures and arrived at the conclusion that listed companies must apply a single set of high quality accounting standards for the preparation of their consolidated financial statements. The standards should be accepted internationally; contribute to the efficient and cost-effective functioning of the capital market and help to protect the investors and maintain their confidence in the financial markets. Therefore, “for each financial year starting on or after 1 January 2005, publicly traded companies governed by the law of a Member State shall prepare
their consolidated accounts in conformity with the international accounting standards” in accordance with the Article 4 of Regulation (EC) 1606/2002.

Despite the fact that regulations are generally binding in their entirety and directly applicable in all member states of the EU without any further implementation in the national legislation, the provisions of Regulation (EC) 1606/2002 are incorporated directly in the Act No. 563/1991 Coll., on accounting. According to § 19, article 9 “entities, which are business companies and which are the issuers of securities publicly traded on a regulated market in the member states of the European Union, shall apply the International Accounting Standards as adopted by the EU for keeping their accounts and for preparation of financial statements”.

Entities, which are subject to reporting under IFRS, can be divided into 2 groups:

- issuers of listed securities, which are influenced by the obligation to report in compliance with IFRS directly;
- non-issuers of listed securities, which are however owned by the entities that are issuers of publicly traded securities.

Non-issuers of listed securities are obliged to keep their accounts in conformity with the provisions of the Czech accounting legislation (see “list of inland legislation” above).

2.2 Reporting requirements under Czech accounting law and main features of the Czech Accounting Standards

Based on the Czech regulatory framework for financial accounting and reporting, the companies can be grouped as follows regarding the requirements on financial reporting:

- **Category I** (big Czech companies that are publicly traded on stock exchanges in the EU markets – IFRS reporting only):
  
  These entities have both to account for the transactions and to prepare financial statements using IFRS. These companies are not required to prepare the financial statements according to Czech Accounting Standards (further “CAS”) as the financial statements prepared in accordance with IFRS are also accepted for the statutory purposes.
  
  The question stands how to account for in compliance with IFRS. IFRS govern the preparation of the financial statements; they do not ordain how to account for the transactions! For further discussion of the problem, see Žárová and Mejzlík (2009).

- **Category II** (Small and medium-sized enterprises – both CAS and IFRS reporting):
  
  This category covers a diverse group of companies, from the small to the big ones (sometimes even bigger and more important than companies under Category I). The common feature of Category II is that the companies are not the issuer of publicly traded securities. Nevertheless, their owners are such issuers. Therefore, the companies belonging to this category shall prepare their financial statements in accordance with CAS for statutory purposes. In addition to this requirement, they shall provide their parent companies with the financial statements and other information needed for consolidation in compliance with IFRS. Act on accounting does not permit any voluntary application of IFRS instead of
From the point of usefulness of accounting information for economic decision-making, the crucial weak points of financial reporting under CAS are:

- no identification of users of the financial statements and of their needs;
- absent specification of objectives of financial reporting;
- vague requirements on qualitative characteristics that determine the usefulness of information in
the financial statements;
- absent definitions of fundamental accounting elements;
- misinterpreted notion of true and fair view;
- unsound and/or missing accounting principles for the vast of accounting spheres; etc.

E.g., missing definitions are the reason for recognition of an asset not based on the inflow of future economic benefits from the asset to an entity; the basis for recognition is the legal ownership of assets. Therefore, assets acquired by a financial lease are not recognised on the face of the lessee’s balance sheet. Further, CAS does not work with the component depreciation (component depreciation is enacted starting from 2010, but the usage of this method is just on voluntary basis). Basic treatment for non-current asset-components with the shorter useful life consists in crediting the provision for repair of the non-current asset. The corrections of immaterial errors are accounted for as a corresponding revenue or expense through the profit and loss; material errors are corrected by accounting for an extraordinary revenue or expense. The changes in accounting policies are extraordinary items again. The changes in estimates are not dealt with under CAS at all. The offsetting of revenue and expenses is not allowed (except for few cases).

2.3 Dual vs. integral relationship between financial and management accounting in the Czech Republic before IFRS adoption

State authorities are the main users of financial statements and other accounting information. Therefore, the regulation of accounting and financial reporting is (at least implicitly) subordinated to tax purposes. The traditional relationship between dual accounting system and tax system is outlined by Figure 4.

Fig. 4: Model I – Extension for the Czech republic (before IFRS adoption)
- **FAS** … financial accounting system (based on Czech Accounting Standards);
- **MAS** … management accounting system (based on “sound” accounting principles);
- **Outputs 1** … tax reports;
- **Outputs 2** … financial statements (according to Czech Accounting Standards);
- **Outputs 3** … budgeting, planning, performance measuring, control;
- **Users 1** … tax authorities;
- **Users 2** … owners, creditors, trade partners, etc.;
- **Users 3** … managers.

The financial accounting (according to CAS) is the starting point for all tax consideration (accounting income before taxation is the first variable in income tax report). Moreover, the Act on income taxes indirectly prescribes obligatory accounting treatment for some items. Management accounting (through its connection to financial accounting) is in some extent subservient to the financial reporting (see also Kaplan, 1984, p. 409 for similar evidence9 regarding US GAAP).

### 2.4 Dual vs. integral relationship between financial and management accounting in the Czech Republic after IFRS adoption

Low usefulness of accounting information based on CAS strengthens the general tendency to the dual relationship between financial accounting and managerial accounting. There are several general reasons in favour of separate coexistence of management and financial accounting. Angelkort and Weißenberger (2009, p. 2) lists imputed costs for replacement values, lump-sum provisioning or opportunity costs for owners’ capital or labour input as the main factors for the dual relationship. Therefore – in addition to the traditional tools (budgeting, cost calculations, responsibility accounting, controllership, etc.), Czech management accounting is characterised by very distinctive approach to the definition, measurement and recognition of accounting elements beyond the boundaries usual at developed economies. Due to weaknesses of financial accounting and reporting regulation, entities reporting under CAS are forced to remove those lacks at least on the management accounting level in order to prepare information needed for internal management and decision-making. The separate existence of management accounting from financial accounting is therefore inevitable (Král, 2006).

As a result of implementation of IFRS in conformity with the Regulation (EC) 1606/2002 into the national legislation, the situation is becoming more favour. Recent researches demonstrated the usefulness of information according to IFRS both for external and internal reporting purposes. The adoption of IFRS has increased the quality of disclosed information comparing to national GAAP (Barth et al., 2008, p. 496). Moreover, IFRS adoption in Europe has not only contributed to the enhancement of national financial reporting, but has also assisted in improving the comparability between countries Macías (2008, p. 8.). This improvement in quality is significant across Europe as shown by Aubert and Grudnitski (2009) and esp. in countries with code law (Morais and Curto, 2007a) where accounting was and still is more closely linked to taxation systems. The same authors (Morais and Curto, 2007b) proved that this tendency is accompanied (in case of Portugal) with less smooth earnings since financial
reporting in accordance with IFRS is not closely related to the taxation as local accounting standards are. Inwinkl and Aussenegg (2009) support this view and add that lower level of earnings management under IFRS is more substantial factor in the Central and Eastern European countries as IFRS allow less discretion than national tax-oriented accounting standards.

IFRS has had a material impact on firms’ financial information in some countries (Jeanjean 2008, Ferrer, 2008). The increase in value relevance is demonstrated not only in countries traditionally focused on supplying the high quality information for external users, such as United Kingdom (Christensen et al., 2007; Ferrer et al., 2009), but also in countries with significant level of discretion in financial reporting, such as Italy (Paglietti and Conversano, 2007; Cordazzo, 2008) or Spain (Pardo et al. 2009; Ferrer et al., 2009). Moreover, the positive influence of IFRS adoption is evidenced in transitional countries, e.g. in Poland (Jaruga et al., 2007), Romania (Mustata et al., 2009) or Russia (Bagaeva, 2009).

From the entities’ perspective, the benefits from adoption are quite important esp. for firms with lower quality of pre-adoption information environments (Armstrong et al., 2007). The IFRS implementation has changed also internal processes in respect to controllership with significant mutual relationship to external financial reporting (Angelkort et al., 2008 and Angelkort and Weißenberger, 2009). However, the shift to IFRS (mandatory or voluntary) is not without any problems. Akman (2009) shows that culture effects on financial reporting and disclosure are relevant and could not be wholly eliminated by the use of single set of accounting standards. Low level of development of accounting profession together with cultural tradition (Fontes, 2009) and/or institutional factors (Cristobal, 2009) can cause that adoption of accounting framework is not always sufficient itself as shown for example on the case of Greece by Andre et al. (2009). The difficulties with interpretation and irrelevancy of IFRS figures can be affected by the entities’ approach to the fulfilment of their reporting duties, e.g. Daske et al. (2007) distinguishes label and serious IFRS adopters pursuing different intentions by adopting IFRS.

Despite abovementioned weaknesses, harmonisation of financial reporting through worldwide IFRS implementation and their convergence or integration with management accounting can be considered as the genuine “way forward”. The IFRS adoption process helps in solving problems on microeconomic level by reducing informational asymmetry between providers and recipients of capital Dumontier and Maghraoui (2007) and by intensification of foreign direct investments flows (Marquez-Ramos, 2009) on macroeconomic level as well.

Thus on previous research, IFRS can be presumed to be sound accounting principles, which are useful for external users and for internal users as well. Some of the previous researches have revealed that this is valid argument esp. for transitional economies. Some of Czech entities, which are subject to IFRS reporting, have been adopting IFRS principles as basic system of internal management and accounting. The differences between financial and managerial accounting has been becoming less significant and the border between both systems has been blurring. Not the approach, but the level of detailedness makes the difference. This tendency started four years ago and it has been becoming stronger and stronger.

The introduction of IFRS into the Czech accounting law has been struggling with some problems from
the very beginning. Five years ago, Sucher and Jindřichovská (2004) verified that the difficulties are caused (similarly to other countries) by tough linkage between preparation of accounting information for external parties and taxation purposes. The situation is further complicated by the prevailing status of mind of Czech accountants, who are reluctant or even unable to forsake traditional thinking oriented on tax matters. However, this is not only the case of transitional economies as manifested by Pajunen (2008) and Pajunen (2009) – partly analogical development can be traced e.g. in Finland, too.

Despite the positive development in the last years in the area of Czech management accounting, financial reporting struggles with problems outlined in Chapter 2.2. Many entities have to cope with the duty of conversion of financial statements based on CAS to IFRS statements. The list of differences between CAS and IFRS could be very long. Ernst&Young (2006) published such an analysis, which comprises differences on 188 pages. Recalling Figure 3, the differences seems to be the most problematic for the companies under Category II. These companies (non-issuers of publicly traded securities, but owned by such issuers) shall account for all transaction and prepare the financial statements and/or annual report for statutory purposes in accordance with Czech accounting legislation in the first place. The conformity with CAS is a subject of control by tax authorities, which supervise over the accounting and financial reporting in the Czech Republic. From the perspective of the Act on accounting, preparation of financial statements and other information needed for the consolidation by the parent company is regarded as a voluntary, internal matter of the entity.

The conversion of financial statements according to CAS in order to be in the line with IFRS is a very complex process, which imposes high expenses upon a significant number of the Czech entities. For better understanding of the extent of the problem, Table 1 shows the organisational structure of the Czech economy. The corporations are split into groups based on the number of employees and ownership structure.

**Table 1: Organisational structure of the Czech economy by number of employees**

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>1-5</th>
<th>6-19</th>
<th>20-249</th>
<th>250+</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total corporations</strong></td>
<td>269 185</td>
<td>78 052</td>
<td>35 677</td>
<td>22 203</td>
<td>1 685</td>
<td>406 802</td>
</tr>
<tr>
<td><strong>Non-financial corporations</strong></td>
<td>136 093</td>
<td>64 687</td>
<td>31 316</td>
<td>18 008</td>
<td>885</td>
<td>250 989</td>
</tr>
<tr>
<td><strong>Financial corporations</strong></td>
<td>559</td>
<td>670</td>
<td>216</td>
<td>111</td>
<td>6</td>
<td>1 562</td>
</tr>
<tr>
<td><strong>Total of under national control</strong></td>
<td>132 425</td>
<td>12 581</td>
<td>12 581</td>
<td>3 995</td>
<td>768</td>
<td>153 859</td>
</tr>
<tr>
<td><strong>Share of national corporations</strong></td>
<td>50.8%</td>
<td>83.7%</td>
<td>88.4%</td>
<td>81.6%</td>
<td>52.9%</td>
<td>62.1%</td>
</tr>
<tr>
<td><strong>Share of foreign corporations</strong></td>
<td>49.2%</td>
<td>16.3%</td>
<td>11.6%</td>
<td>18.4%</td>
<td>47.1%</td>
<td>37.9%</td>
</tr>
</tbody>
</table>

Source: Own computation based on the statistics of the Czech Statistical Office

According to the author’s survey, there were 203 financial instruments issued by 55 issuers on Czech capital market as at the beginning of 2009. Only those 55 corporations are captured by Category I as far as reporting requirements of Act on accounting concern. Their proportion to the whole economy is
marginal. Table 1 shows that almost 40% of the Czech enterprises are effectively controlled by foreign subjects. The most of these companies are covered by Category II. Along with the primary duty to report under the CAS rules, Category II-companies are internally obliged to report financial results to the foreign owners – mostly in accordance with IFRS. In order to lower the cost burden, IFRS and reporting system based on them are the foundations for internal management, decision-making and control.

Besides their main function to provide high-quality information for external users, IFRS are becoming the “leitmotiv” of management accounting for internal users. The reporting to the parent company according to IFRS combined with mandatory bookkeeping according to CAS (and inappropriate interferences of tax law into CAS) is the driver narrowing the gap between financial and management accounting. The special adjustments (Král, 2006), heading for removing the lacks of CAS for internal informational needs, are steadily replaced by the IFRS principles, which are sound and respectful to the economic nature of entrepreneurship. Czech management accounting is returning to “normal, standard” state, which had long and famous tradition in the Czech countries. E.g. the responsibility accounting, performance measurement and other management accounting technique were employed by Tomáš Baťa in his company already in early years of the 20th century (for some historical background see Matyáš and Stránský, 2005).

Of course, information and reporting systems architecture reflects this change.

Fig. 5: Model II – Extension for the Czech republic (after IFRS adoption)

- **FAS** … financial accounting system (based on Czech Accounting Standards);
- **MAS** … management accounting system (based on IFRS);
- **Outputs 1** … tax reports;
- Outputs 2 ... financial statements (according to CAS);
- Outputs 3 ... financial statements (according to IFRS)
- Outputs 4 ... budgeting, planning, performance measuring, control;
- Users 1 ... tax authorities;
- Users 2a ... external users excluding owners (i.e. creditors, trade partners, etc.);
- Users 2b ... external users – owners;
- Users 3 ... managers.

The model manifests the detachment of owners from other external users. Since reporting for consolidation purposes is viewed by the Czech Act on accounting as the internal matter of entity, financial statements prepared in compliance with IFRS are available only to the managers and owners. Other external parties have to content with financial statements according to CAS.

2.5 Differences between CAS and IFRS

*Table 2* ranks the most important difference between CAS and IFRS. The list is incomplete; the focus is primarily put on areas, which lead to significantly different results as far as income per period and evaluation of financial performance in particular concern.

**Tab. 2: The important differences between CAS and IFRS with impact on net income**

<table>
<thead>
<tr>
<th>Topic</th>
<th>CAS</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income concept</td>
<td>transaction approach; strong influence of legal framework (esp. taxation)</td>
<td>capital maintenance approach</td>
</tr>
<tr>
<td>Fair value revaluation model</td>
<td>not permitted except for the financial instruments</td>
<td>financial derivatives, the most securities and some biological assets revaluated compulsory; PPE, intangibles and investments in properties as alternative treatment</td>
</tr>
<tr>
<td>Offsetting</td>
<td>offsetting within income statement not permitted (except for some marginal cases)</td>
<td>allowed, if appropriate</td>
</tr>
<tr>
<td>Extraordinary items</td>
<td>transactions of unusual nature accidently occurring, changes in accounting politics and material prior period errors restatement</td>
<td>not applied</td>
</tr>
<tr>
<td>Prior period errors</td>
<td>correction through the related item of revenue or expense; if material error, extraordinary item</td>
<td>retrospective restatement through retained earnings</td>
</tr>
<tr>
<td>Changes in accounting policies</td>
<td>extraordinary items</td>
<td>retrospective restatement through retained earnings</td>
</tr>
<tr>
<td>Impairment</td>
<td>temporary vs. permanent distinction; insufficient guidance on calculation</td>
<td>carry amount vs. recoverable amount; solid guidance</td>
</tr>
<tr>
<td>Revenues</td>
<td>no guidance, based only on formal legal requirements</td>
<td>risk and reward approach; reliable measurement of revenue at fair value of the consideration; reliable measurement of related costs</td>
</tr>
</tbody>
</table>
As demonstrated by Procházka and Velechovská (2008), from the point of usefulness, relevance and reliability of information on financial performance, revenue recognition is the most affected accounting area because of missing and/or unsound accounting principles. Revenue recognition requires usually a big attention of the preparers of financial statements, as discrepancies between CAS rules and IFRS principles are more than substantial.

Similarly as in case of the asset, liability, equity, there is no definition of revenue under Czech accounting standards. There are two main solutions used by practitioners (Procházka and Velechovská, 2008):

- historically employed approach to recognition of revenue based on the intuition of accountants (or better bookkeepers) in each transactions (which cannot be accepted for its arbitrariness)
- adoption of IFRS principles into internal accounting procedures (which is a better solution than the previous one, but not ideal and used only by small number of entities).

The conditions, under which revenue can arise, are not regulated by CAS. The decisive factor is the legal form of the selling transaction and tax circumstances. Entities make usually the taxation date for the purposes of value added tax identical with the moment of revenue recognition. In the best case, entities recognise revenue in the moment, at which they transfer the ownership title to the customer. However, a transfer of ownership does not always correspond to the transfer of control over the transferred asset.

The legal form of the documentation underlying accounting for revenue in the selling transaction is of a great importance, too. If the seller issues and sends the invoice to the customer, then it has to recognise revenue. When the seller issues the advance payment document, then it shall account for a liability (e.g. deferred revenue or advance payment received). Both cases ignore the transfer of assets or the stage of completion of services. The measurement of revenue is not solved, too. The Act on accounting offers only an indirect guideline.

As a receivable shall be measured at its face value, revenues are measured at amount received in cash or

---

<table>
<thead>
<tr>
<th>Topic</th>
<th>CAS</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial leasing</strong></td>
<td>lessee recognised instalments of leasing obligation as the expense (incl. the principal); asset not recognised on the balance sheet, therefore not depreciated</td>
<td>asset recognised by lessee based on inflows of future economic benefits; asset depreciated; only interest (not principal) recognised as expense</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>asset considered as a one technological unit</td>
<td>component approach</td>
</tr>
<tr>
<td><strong>Provisions for reparation of long-term assets</strong></td>
<td>solving problem with faster obsolesce of asset’s components; influenced by taxation</td>
<td>not allowed – component approach to depreciation</td>
</tr>
<tr>
<td><strong>Interest calculation</strong></td>
<td>linear method in all cases</td>
<td>effective interest method</td>
</tr>
<tr>
<td><strong>Discontinued operations</strong></td>
<td>not solved, only the possibility to incur provision for restructuring</td>
<td>special reporting requirements; each discontinued operation disclosed separately</td>
</tr>
<tr>
<td><strong>Segment reporting</strong></td>
<td>no reporting</td>
<td>very detailed requirements</td>
</tr>
</tbody>
</table>
at nominal amount of consideration receivable. The discounting of receivables is not allowed. When the inflow of cash or cash equivalents is deferred and the arrangement effectively constitutes a financing transaction, the separation of transaction into two parts – selling of goods or rendering of service and financing transaction – is not possible. The whole amount of receivable is recognised immediately as revenue from goods or services.
The selling transaction is always regarded as a single unit of account. The division of “multiple-element arrangement” into separately identifiable components is not dealt with by CAS.
Above-mentioned shortages impair the usefulness of accounting information on revenues for decision-making and open space for manipulation and managing the earnings, which is serious problem of Czech accounting-taxation practice. All fundamental lacks in CAS and differences in comparison with IFRS are summarised in Table 3.18

| Tab. 3: The differences in revenue recognition between CAS and IFRS |
|-----------------|-----------------|-----------------|
| Topic           | CAS             | IFRS            |
| Definition of revenue | no definition of revenue | gross inflow of economic benefits from ordinary activities increasing equity (not by contributions from owners) |
| Nature of revenue     | no distinction  | quite clear distinction between revenues and gains |
| Measurement of revenue | no guidance, measurement at nominal amount paid or invoiced; discounting of receivables not allowed | fair value of the consideration received or receivable; taking into account the time value of money |
| Recognition of revenue | based on transfer of ownership title; influenced by provisions of Act on VAT | based on transfer of risks and awards |
| Application criteria | no criteria     | well-developed  |
| Transaction separation | not solved; the contract is a single unit of account | application of the recognition criteria to the separately identifiable components |

Source: Own comparison of CAS and IFRS revenue recognition principles

The next tables confirm assertion that the differences between CAS and IFRS financial statements are significant. The authors took a sample of companies which securities are publicly traded on the Czech capital market, namely on Prague Stock Exchange (further PSE) and made a simple analysis of financial statements prepared in accordance with CAS compared with financial statements in compliance with IFRS. The Czech capital market can be characterised by small involvement of companies in gaining capital though stock exchange. The number of listed companies reached 55 as at the beginning of year 2009. However, there are not available both sets data for those companies for recent years. Analysed data are gathered for year 2004. It was utilised well-known fact that for the periods ending in
2004, listed companies on PSE published their financial statement under CAS guidance. In concord with Regulation (EC) 1606/2002, issuers have to shift to IFRS from the periods starting in year 2005 (or later). The IFRS figures have to be presented also as far as information for previous comparative periods (at least for one period) concerned. Therefore, both CAS and IFRS data for year 2004 are at disposal.

The analysis excludes:
- all financial institutions,
- extremely big Czech companies (like Škoda Auto or ČEZ),
- companies which reported their consolidated statements according to IFRS on voluntary basis even before 2005, and
- companies, listed on PSE in years 2004-2005, but not traded nowadays anymore.

This restriction was exercised to ensure at least some homogeneity in the sample. Unfortunately due to undeveloped capital market in Czech Republic, the sample is restricted to only ten “average” companies from non-financial sector.

Next four tables summarise the differences between CAS and IFRS figures for the key items (assets, liabilities, equity, revenues, net profit). Outcomes of the analysis can served as a starting point for a deeper analysis of differences between CAS and IFRS and impact of this discrepancy on the architecture and mutual relationship of financial and management accounting.

**Tab. 4: CAS figures of key items (in thousands CZK)**

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenues</th>
<th>Net profit</th>
<th>Assets</th>
<th>Equity</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>467 769</td>
<td>57 200</td>
<td>854 017</td>
<td>623 680</td>
<td>230 337</td>
</tr>
<tr>
<td>Company B</td>
<td>687 573</td>
<td>59 066</td>
<td>1 641 406</td>
<td>1 402 876</td>
<td>238 530</td>
</tr>
<tr>
<td>Company C</td>
<td>1 637 725</td>
<td>37 217</td>
<td>3 460 017</td>
<td>3 309 332</td>
<td>150 685</td>
</tr>
<tr>
<td>Company D</td>
<td>2 757 351</td>
<td>-183 995</td>
<td>3 588 362</td>
<td>1 823 020</td>
<td>1 765 342</td>
</tr>
<tr>
<td>Company E</td>
<td>5 959 003</td>
<td>337 996</td>
<td>5 987 676</td>
<td>3 067 204</td>
<td>2 920 472</td>
</tr>
<tr>
<td>Company F</td>
<td>1 484 505</td>
<td>218 654</td>
<td>7 166 055</td>
<td>4 614 067</td>
<td>2 551 988</td>
</tr>
<tr>
<td>Company G</td>
<td>9 881 954</td>
<td>349 434</td>
<td>8 211 501</td>
<td>4 252 082</td>
<td>3 959 419</td>
</tr>
<tr>
<td>Company H</td>
<td>1 567 058</td>
<td>62 690</td>
<td>12 133 497</td>
<td>9 656 006</td>
<td>2 477 491</td>
</tr>
<tr>
<td>Company I</td>
<td>11 397 538</td>
<td>964 271</td>
<td>13 549 645</td>
<td>8 473 624</td>
<td>5 076 021</td>
</tr>
<tr>
<td>Company J</td>
<td>13 008 075</td>
<td>3 740 652</td>
<td>17 514 032</td>
<td>11 189 514</td>
<td>6 324 518</td>
</tr>
</tbody>
</table>

*Source: Own computation based on “2004 and 2005 annual reports” of the analysed companies*
Tab. 5: IFRS figures of key items (in thousands CZK)

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenues</th>
<th>Net profit</th>
<th>Assets</th>
<th>Equity</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>452 932</td>
<td>39 955</td>
<td>977 687</td>
<td>789 135</td>
<td>188 552</td>
</tr>
<tr>
<td>Company B</td>
<td>694 535</td>
<td>148 205</td>
<td>1 579 878</td>
<td>1 468 312</td>
<td>111 566</td>
</tr>
<tr>
<td>Company C</td>
<td>1 626 380</td>
<td>38 676</td>
<td>3 458 737</td>
<td>3 248 995</td>
<td>209 742</td>
</tr>
<tr>
<td>Company D</td>
<td>2 667 690</td>
<td>-182 238</td>
<td>5 063 393</td>
<td>1 812 453</td>
<td>3 250 940</td>
</tr>
<tr>
<td>Company E</td>
<td>5 932 445</td>
<td>326 941</td>
<td>4 637 624</td>
<td>2 920 602</td>
<td>1 717 022</td>
</tr>
<tr>
<td>Company F</td>
<td>1 445 993</td>
<td>228 979</td>
<td>6 873 588</td>
<td>4 221 801</td>
<td>2 651 787</td>
</tr>
<tr>
<td>Company G</td>
<td>9 874 181</td>
<td>343 741</td>
<td>6 027 101</td>
<td>4 303 748</td>
<td>1 723 353</td>
</tr>
<tr>
<td>Company H</td>
<td>1 532 307</td>
<td>84 840</td>
<td>12 159 615</td>
<td>9 388 550</td>
<td>2 771 065</td>
</tr>
<tr>
<td>Company I</td>
<td>11 008 703</td>
<td>1 077 355</td>
<td>12 453 379</td>
<td>9 253 520</td>
<td>3 199 859</td>
</tr>
<tr>
<td>Company J</td>
<td>12 233 000</td>
<td>4 414 000</td>
<td>15 165 000</td>
<td>11 085 000</td>
<td>4 080 000</td>
</tr>
</tbody>
</table>

Source: Own computation based on “2004 and 2005 annual reports” of the analysed companies

Tab. 6: Differences between CAS and IFRS figures (absolute amounts in thousands CZK)

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue</th>
<th>Net profit</th>
<th>Assets</th>
<th>Equity</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>-14 837</td>
<td>-17 245</td>
<td>123 670</td>
<td>165 455</td>
<td>-41 785</td>
</tr>
<tr>
<td>Company B</td>
<td>6 962</td>
<td>89 139</td>
<td>-61 528</td>
<td>65 436</td>
<td>-126 964</td>
</tr>
<tr>
<td>Company C</td>
<td>-11 345</td>
<td>1 459</td>
<td>-1 280</td>
<td>-60 337</td>
<td>59 057</td>
</tr>
<tr>
<td>Company D</td>
<td>-89 661</td>
<td>-1 757</td>
<td>1 475 031</td>
<td>-10 567</td>
<td>1 485 598</td>
</tr>
<tr>
<td>Company E</td>
<td>-26 558</td>
<td>-11 055</td>
<td>-1 350 052</td>
<td>-146 602</td>
<td>-1 203 450</td>
</tr>
<tr>
<td>Company F</td>
<td>-38 512</td>
<td>10 325</td>
<td>-292 467</td>
<td>-392 266</td>
<td>99 799</td>
</tr>
<tr>
<td>Company G</td>
<td>-7 773</td>
<td>-5 693</td>
<td>-2 184 400</td>
<td>51 666</td>
<td>-2 236 066</td>
</tr>
<tr>
<td>Company H</td>
<td>-34 751</td>
<td>22 150</td>
<td>26 118</td>
<td>-267 456</td>
<td>293 574</td>
</tr>
<tr>
<td>Company I</td>
<td>-388 835</td>
<td>113 084</td>
<td>-1 096 266</td>
<td>779 896</td>
<td>-1 876 162</td>
</tr>
<tr>
<td>Company J</td>
<td>-775 075</td>
<td>673 348</td>
<td>-2 349 032</td>
<td>-104 514</td>
<td>-2 244 518</td>
</tr>
</tbody>
</table>

Source: Own computation based on “2004 and 2005 annual reports” of the analysed companies

Tab. 7: Differences between CAS and IFRS figures (relative in %)

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue</th>
<th>Net profit</th>
<th>Assets</th>
<th>Equity</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>-3,17%</td>
<td>-30,15%</td>
<td>14,48%</td>
<td>26,53%</td>
<td>-18,14%</td>
</tr>
<tr>
<td>Company B</td>
<td>1,01%</td>
<td>150,91%</td>
<td>-3,75%</td>
<td>4,66%</td>
<td>-53,23%</td>
</tr>
<tr>
<td>Company C</td>
<td>-0,69%</td>
<td>3,92%</td>
<td>-0,04%</td>
<td>-1,82%</td>
<td>39,19%</td>
</tr>
<tr>
<td>Company D</td>
<td>-3,25%</td>
<td>-0,95%</td>
<td>41,11%</td>
<td>-0,58%</td>
<td>84,15%</td>
</tr>
<tr>
<td>Company E</td>
<td>-0,45%</td>
<td>-3,27%</td>
<td>-22,55%</td>
<td>-4,78%</td>
<td>-41,21%</td>
</tr>
<tr>
<td>Company F</td>
<td>-2,59%</td>
<td>4,72%</td>
<td>-4,08%</td>
<td>-8,50%</td>
<td>3,91%</td>
</tr>
<tr>
<td>Company G</td>
<td>-0,08%</td>
<td>-1,63%</td>
<td>-26,60%</td>
<td>1,22%</td>
<td>-56,47%</td>
</tr>
<tr>
<td>Company H</td>
<td>-2,22%</td>
<td>35,33%</td>
<td>0,22%</td>
<td>-2,77%</td>
<td>11,85%</td>
</tr>
<tr>
<td>Company I</td>
<td>-3,41%</td>
<td>11,73%</td>
<td>-8,09%</td>
<td>9,20%</td>
<td>-36,96%</td>
</tr>
<tr>
<td>Company J</td>
<td>-5,96%</td>
<td>18,00%</td>
<td>-13,41%</td>
<td>-0,93%</td>
<td>-35,49%</td>
</tr>
</tbody>
</table>

Source: Own computation based on “2004 and 2005 annual reports” of the analysed companies

Conclusion
The implementation of IFRS into the Czech legislation has brought new quality to financial reporting. Due to their usefulness, IFRS infiltrate into management accounting systems. In fact, in many
companies IFRS carry out (satisfy, meet) the function of internal management accounting (with some modification allowing better internal performance evaluation). From the point of companies reporting under CAS and IFRS simultaneously, the financial accounting according to CAS is viewed as “necessary evil” to be able to comply with tax duties. Therefore, those entities build IFRS in their internal informational systems.

Paradoxically; from the entity’s perspective, the accounting system could be denoted as (almost) fully integrated. However, from the perspective of regulatory framework, the entity’s accounting system should be labelled as (almost) wholly separate. The schizophrenia of Czech accounting could not be more obvious. The high-quality financial reporting standards are used for internal purposes because of “unlucky” status of the Czech accounting legislation not allowing voluntary utilisation of IFRS (see Figure 5 again). In order to avoid additional burden in the process of preparing information for internal users, IFRS principles have been replacing “standard” management accounting. This remark refers to many Czech companies (see Table 1 again). Question is how to evaluate this trend. I guess, that introducing of IFRS as integral part of internal reporting and management accounting should be apprehend as a noticeably positive issue. Thus, entities are able to reduce costs of preparing needed information and – if properly modified – IFRS can be a surrogate to management accounting in cases when entities are obliged to use simultaneously local standards for the tax purposes and statutory reporting and IFRS for reporting to superordinate consolidating entity.

Current status quo is useful in terms of meeting informational demand of owners and managers. Recalling Figure 3 and Figure 5, the financial reporting in compliance with IFRS (e.g. for consolidation purposes) is just an internal affair of entities covered by Category II. There is no legal requirement to disclose IFRS financial statements publicly. Therefore, external users other than owners do not posses access to more useful set of information in comparison with local accounting standards. Many interested parties would appreciate if the Act on accounting had been amended by the provision allowing or requiring to present financial statement in conformity with IFRS either on voluntary or on compulsory basis. This would lead to presenting accounting information, which is more useful for public. The second favourable effect would be the reducing cost connected with recording transactions and preparing financial statements under two different set of accounting standards.

There is one chief restriction impairing inferences of this study. The usefulness of IFRS as reporting standards by Czech companies is only assumed without any empirical testing. As selected researches have demonstrated, the successful implementation of IFRS leading to increase in quality of accounting information is connected with certain prerequisites. Improvement is more significant in countries with code law, in countries with strong position of taxation system and esp. in CEE countries (e.g. Morais and Curto, 2007a; Inwinkl and Aussennegg, 2009). There is no valid evidence why the Czech Republic should be the exception from this “rule”. Hellström (2006) provides some support that the development in the Czech Republic is in the line with the development in other countries, but additional research confirming or rejecting the premise is needed. One of the authors of the paper is a member of the research team,
which analyses costs and benefit of IFRS implementation in Czech companies. The team has carried out trial pre-research\(^1\) which indicates that the adoption of IFRS has affected significantly the setup of information systems. Moreover, pre-research has demonstrated the integration tendency of financial and management accounting based on IFRS as important background for decision-making, even for internal users. Those and many other questions are going to be subject of validation or rejection under standard research planned for next years.

Acknowledgements

This paper is processed as an output of a research project „Analysis of Accounting Standards for Income Reporting – New Approaches in the World and the Possibilities of Their Utilisation in the Czech Republic” (registration number GA402/09/P523) and a research project “Cost versus Benefit Analysis of IFRS Implementation in Czech Listed Companies” (registration number GA402/08/748).

Notes

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1. The evolution of value creation concepts is described by Gimžauskiene and Valančiūne (2009).
2. Taken over from Lewis and Pendrill (2004, p. 48).
4. Influence of the German-French tradition of accounting combined with the incorporated EU Directives.
5. As a consequence of IFRS implementation into EU law.
6. This is not the full truth. As far as the filling of income tax report concerns all companies have to start with the accounting pre-tax income, which has to be computed based on the rules defined by CAS. This means of course a big and meaningless workload for companies.
7. All Czech companies have the informational obligation to submit their financial statements and/or annual report to the Business Register.
8. Unfortunately, the Czech accounting system is significantly influenced by the tax laws.
9. To be honest, the subordination of management accounting to financial reporting under US GAAP stems from completely different roots than tax purposes of the state authorities.
10. Excl. self-employed persons
11. Incl. businesses which did not report their numbers of employees
13. There are two capital markets in the Czech Republic, which meet conditions of a regulated market delimited by the Regulation (EC) 1606/2002 – i.e. Prague Stock Exchange and RM-System.
14. Only reporting in compliance with the IFRS.
15. The number is certainly higher than data from the Czech Statistical Office reveal, because cited statistics covers only direct control over companies. Some of Czech companies, which are parent companies to other Czech companies, are under control of foreign subjects. These indirect relationships are not captured by the statistics.
16. The definition of expense is missing, too.
17. The loose regulation facilitates entities to manage their earnings according to their needs and motivations. Above all, the construction-type contracts (as defined e.g. by IAS 11) can be accounted for and reported anywise. The financial statements of these entities cannot be compared without significant risk of error. This corresponds with the conclusions by Inwinkl and Aussenegg (2009).
18. A deeper analysis of revenue recognition principles under CAS along with description of economic consequences of the shortages outlined can be found in Procházka and Velechovská (2008, p. 71-84).
19. As the research sample is not entirely representative, the exact results from pre-research are not intended for public presentation. The aim of the pre-research is to verify the correctness of a questionnaire, which has been preparing for a standard research.
References


Tab. 8: The list of analysed companies in the sample (Tables 4 – 7)

<table>
<thead>
<tr>
<th>Company</th>
<th>Name of Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>Léčebné lázně Jáchymov, a.s.</td>
</tr>
<tr>
<td>Company B</td>
<td>Energoaqua, a.s.</td>
</tr>
<tr>
<td>Company C</td>
<td>Pražské služby, a.s.</td>
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<td>Company D</td>
<td>Spolek pro chemickou a hutní výrobu, a.s.</td>
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<td>Company E</td>
<td>Východočeská plynářská, a.s.</td>
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<tr>
<td>Company F</td>
<td>Severomoravské vodovody a kanalizace Ostrava a.s.</td>
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<td>Company G</td>
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<td>Company H</td>
<td>Mero ČR, a.s.</td>
</tr>
<tr>
<td>Company I</td>
<td>Pražská energetika, a.s.</td>
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<td>Company J</td>
<td>Philip Morris ČR, a.s.</td>
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