The comparative analysis of the selected areas of the Czech accounting legislation and IAS/IFRS

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Abstract

The paper is aimed at the comparative analysis of the financial statements completed according to Czech accounting rules and under IAS/IFRS. In respect to the range of the problem, there is compared the accounting framework in the Czech Republic based on the Act. no. 563/1992 Coll. on accounting with the conceptual framework of IFRS. The paper presents the comparative analysis of respective legal measurements and the financial statements of the selected enterprises, completed under Czech accounting rules and under IFRS. The subject of the comparative analysis is also inventories, tangible assets and building contracts, where the differences between the Czech accounting rules and IFRS were revealed.

Keywords:

IAS/IFRS, valuation, inventory, building contracts, tangible assets.

Introduction

The amendment of the Act no. 563/1991 Coll. on Accounting implementing the Regulation no. 1606/2002 of the European Parliament has established the obligation for the enterprises which posses publicly traded securities to complete the financial statements under International Financial and Reporting Standards (IAS/IFRS). The application of the IAS/IFRS requires highly qualified accounting professionals who need to understand the differences between IFRS and Czech accounting rules. IFRS do not represent the generally valid legislation but they can be implemented into the national law; IFRS represents the accounting system based on the principles. On the contrary, Czech accounting legislation is based on the rules. In respect to the fact, that each of the systems is based on the different priorities and rules, there are lots of differences. The complex comparative analysis of those systems seems to be very complicated and overreaches the extent of the paper.

The aim and the methodology

Due to the wide range of the problems, the paper is aimed mainly on the most important differences in the area of financial statements for business enterprises which do not complete consolidated financial statements. There is compared the accounting framework in the Czech Republic (represented by Act. no. 563/1991 Coll. on Accounting) and IFRS. The basic requirements on accounting information, the possible valuation methods, etc. are presented as well. Further, the subject of the comparative analysis is represented by inventories, tangible assets and building contracts. The paper presents the comparative analysis of the legislation dealing with the above mentioned topics. The impact of the differences was proved by the analysis of the subjects which transform the financial statement based on Czech accounting rules on the financial statement based on IFRS. The methodology which was used, respect that IAS/IFRS are the systems of financial reporting and not accounting systems, as it is in the case of the Czech Republic. The continental accounting systems define how the accounting cases should be record on the contrary to the reporting systems, which states the subjects and the mean of the information. The presented results are based on the analysis done in the set of enterprises who obligatorily or voluntarily complete their financial statements under IAS/IFRS.

Results and discussion

Conceptual framework defines the elements of financial statements. The elements directly related to the measurement of financial position are assets, liabilities and equity:

- an asset is a resource controlled by an enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise

- a liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefit

- equity is the residual interest in the assets of an enterprise after deducting all its liabilities

The elements directly related to the measurement of profit are income and expenses:

- income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decrease of liabilities that result in increases in equity, other than those relating to contributions from equity participants

- expense are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants

There are confirmed the basic philosophy and principles in the conceptual framework. There are: accrual basis, going concern, understability, relevance, materiality, reliability, faithful representation, substance over form, neutrality, prudence (Kovanicová, 2005).

There are four different measurement bases in the conceptual framework employed to different degrees and in varying combinations in financial statements: historical cost (the most common way of measurement determined by IFRS,)current cost, realizable value, present value. The specific means of measurement are used in the particular standards.

There is the Act on Accounting similar to Conceptual framework of IFRS in the Czech Republic. This is the most significant act concerns with accounting regulation in the Czech Republic. The basic accounting principles and are embedded in the Accounting Act. There are not defined the basic elements of financial reporting in contrast to conceptual framework. The basic principles are similar to IFRS (accrual basis, going concept, understability, reliability, comparability). The basic principles are defined in the relation to accounting records in the Accounting Act and in the relation to financial statement in the conceptual framework. The principle “substance over form” is represented by use of methods relevant to recorded transactions. The basic financial statements are the same in IFRS and in the Czech accounting legislation.

The historical cost is the most important measurement base in the Czech Republic. The fair value is used for the financial investments measurement in the end of accounting period.

Inventory

In the frame of IAS/IFRS the matter of inventory is comprised in IAS/IFRS no. 7. The inventories are defined as the assets possessed for the purpose of sale or production or the assets in the form of material and supplies which should be consummated in the production process. Czech legislation does not comprise the general definition of inventories. It defines the individual items of the inventory (for example raw material, secondary substances, spare parts). AS the main difference in that area can be considered the different understanding of spare parts. Under the Czech legislation, the spare parts are considered to be all spare parts with no respect of its valuation and their life time. On the contrary, in the frame of IFRS some spare parts can be in certain conditions considered to be the tangible asset. IFRS uses so called component attitude – in case that the individual parts of the property have different life time, and in case that the value of the component exceeds 10 % of the property value, it is suitable to record each part separately – individual parts of the tangible assets are depreciated separately then. The comparative analysis has revealed that the financial statements completed under Czech legislation lead in the year of the exchange and following to the undervaluation of the assets (lower balance is recorded) in comparison with financial statements under IAS/IFRS. Czech accounting rules also causes the break in the faithful representation of the financial statements mainly in relation to the liquidity of the assets. Further details on that can be seen in tangible fixed assets chapter.

Valuation of the inventory

Under IFRS the inventories are valuated according to the LCM principle Lower of Cost or Market). Under that principle the acquisition price should not reach the net realizable amount. The valuation of the inventories should cover all the costs connected with its purchase, transformation and other costs connected with the inventories in connection with its transfer on the present area and into the present state. The valuation is decreased in case of various types of sales. The costs connected with the purchase cover the acquisition price and indirect costs connected with the purchase. The IFRS principles do not allow the cover the paid interests (wit the exception of the situation, when it takes very long time to the inventories to be able to be purchased) and do not allow to cover the exchange rate differences.

The costs on transformation cover the costs directly connected with the production units and systematically allocated fixed and variable costs which are connected with the production. The allocation of the fixed indirect costs is based on the current usage of the production capacity, in case that the production is lower; the allocation key is the same as in case of current production capacity. In case of the high usage of the production capacity, it is necessary to allocate the indirect cost according the real usage of the production capacity (i.e. to decrease the valuation of the inventory). The net realizable amount is defined as the sell price in case of the common business decreased by the costs which are needed for the purchase realization. The IFRS do not allow revaluating the inventories, by the real amount in case that it is higher than the acquisition price. In case that the real amount is lower than the acquisition price, the adjustment should be created, which can be abolished. The revaluation of the material and similar supplies should not be done in cases, when the final products (produced from the material) will be selling for the price same or higher than the production costs. The assumption of the net realizable amount should be done newly for each period (Mládek, 2006).

Under the rule in the Czech Republic the inventories are valuated at the acquisition price (purchased inventory)or by the factory costs (in case that inventory was created by own activity). In case of inventory recording the rule of safety should be applied. It means that the adjustments should be created to the inventories in case that the decrease of the value is temporary. In case of the permanent decrease, the direct depreciation in to the operational costs can be done. The Czech accounting standard no. 15 enables to valuate the inventories which were created by own activity at the amount of the real spent factory costs or at the amount of the ex ante set factory costs. The standard also enables to valuate those inventories in connection with the length and the character of the production cycle. Only the direct material costs can be covered, in case of certain production types also the administrative indirect costs can be covered into the valuation. The problems of the allocation of the indirect costs according the usage of the production capacity are not covered by that standard. The Czech legislation on the contrary to the IFRS does not divide the indirect costs on fix and variable. This can hide the inefficiency in the usage of the production capacity into the valuation of unsold inventories. There is no significant difference in case of the inventory valuation. The amount of inventories in financial statement can differ significantly due to the different means of spare parts reporting. The analysis has also revealed that Czech legislation does not solve the questions connected with the net realizable amount and decrease of the value.

Methodical approaches to the valuation of the inventories of the same type

IFRS uses for that purpose so called cost formulas. In case of the inventories which are not normally exchangeable, the valuation should be based on their individual costs. In case that there are inventories which are exchangeable, and the individual costs cannot be used or the IFRS enables to use FIFO, weighted arithmetical average. LIFO has been abolished since 2005. The same is also valid in the Czech Republic. The recording of the inventories is base don the accrual principle. I.e. the costs on sold products should be commensurable with the revenues from the sell. Also the recording of the decrease in the value of the inventory is done in the period in which that situation was realized. The same principles are respected also in the Czech Republic. It can be said that IFRS apply the principle of safety in case of valuation of the inventory more strictly than the Czech legislation.

Tangible fixed assets

The tangible fixed assets pursuant to the Czech legislation are characterized by long-term holding and, in most cases; they are assets with valuation determined by the accounting entity in relation to the significance principle and principle of true and fair depiction of the financial statements, except for land, structures and articles made from precious metals. Pursuant to the IAS/IFRS, they are defined as tangible assets held to be used in production, for the provision of goods or services, lease and/or for administrative purposes. The presumed period of use is more than one accounting period. The issue of the tangible fixed assets is not fully dealt with by a sole accounting standard, but it is necessary to respect the provisions of a number of international accounting standards. The IAS 16 standards define the tangible assets as land, structures and equipment expected to bring in economic benefit and with acquisition costs that may be reliably determined. On the other hand, this standard excludes forests and similar renewable natural resources, biological assets, survey and mining of minerals, crude oil, natural gas and similar non-renewable raw materials – these matters are dealt with in other standards, for example the biological fuels are regulated in IAS 41 – Agriculture. The tangible fixed assets are also dealt with in IAS 40 – Investments into real estate. In certain cases, spare parts are also considered to be tangible fixed assets. The basic difference from the Czech legal regulation is the possibility pursuant to IAS/IFRS to aggregate or disaggregate the fixed assets within the scope of individual groups – for example land, structures or equipment. Such items that are of the same technical and economic determination and that are not significant may be aggregated. These items may then be followed and depreciated as an aggregate. In the event of sale or disposal of an item, these items are valued at the average price. Pursuant to the Czech regulations, aggregation of this kind is not customary and may be encountered only in agriculture, namely in the case of group depreciation of the animals of the basic herd. The opposite is the disaggregation process, i.e. the recording and separate depreciation of individual components, which it is reasonable to apply in particular if the individual components have different usable lives. Each component is depreciated separately as per the presumed usable life. If a component is replaced, this item should be written off, then newly put into use and depreciated. Only the other expenses related to the replacement of the component – and not its acquisition price – may be adjusted (accrued). In the Czech legal regulations, on the other hand, the entire asset is depreciated throughout the life time of the entire thing; the replacement is entered into the costs in the year of component replacement. The adverse impact on the economic result in the year of replacement may only be eliminated by creating a reserve for repair. However, it needs to be pointed out that this reserve does not comply with the concept of reserves as required by the IAS/IFRS.

The valuation of tangible assets at acquisition and in different moments of the life time of the asset represents the fundamental problem that has an impact on the balance sheet sum and reported economic result.

As for the starting valuation as per the **Czech** accounting regulations, the fixed assets are valued in conformity with Sect. 25 of the Accounting Act No. 563/2001 Coll., and Sect. 47, 61 and 61a of the Ordinance No. 500/2002 Coll., in association with the method of acquisition with the so-called historical price, i.e. the acquisition price in the event of an acquisition paid for, one's own costs in the event of acquisition from own production, and, in other cases, for example acquisition for free, in special events of acquisition or in cases when one's own costs may not be determined, the reproduction acquisition price is applied. The acquisition price is reduced with the subsidy received for the acquisition of fixed assets or for the interests paid before the putting of the assets into use and capitalized to the price of the fixed assets as per the directive. **IAS/IFRS** indicates as the basic possibility the valuation of tangible fixed assets with the so-called price created on the basis of historical costs. They may be:

- The costs of acquisition which are an analogy of the Czech acquisition price. Besides the value itself of the asset, the price comprises the directly attributable costs, for example the costs of preparation of the place for transportation and handling, installation and assembly, for professional experts, testing of assets in the pre-production stage, etc. Unlike the Czech regulations, there is a possibility to include in the valuation the estimate of the costs related to disassembly and elimination of the asset. Besides entering into the asset valuation, and namely in discounted form respecting the time factor, a reserve in the same amount is created that is drawn upon the disposal of the asset. If the payment for asset acquisition is payable within a longer time period, the input price of the asset is determined as the present value of the future payments. The difference between the nominal value of the payable and its current value is pursuant to the IAS 23 – Costs of Borrowing – admitted as the interest throughout the validity of the payable unless it is activated.

- Production costs. These costs represent an analogy of one's own costs of production, but they may not in any way include the sales and administration costs of production.

The subsidies received in association with the acquisition of assets may be analogously, as in the Czech Republic, compensated against the acquisition price or, in association with the IAS 20 – State Subsidies Reporting – and State subsidy publishing – be reported separately as an accrued revenue. The disadvantage of the procedure reducing the input price by the subsidy is that the assets are significantly undervalued in comparison with the market value and this is surely reflected in the amount of depreciation. Pursuant to the IAS/IFRS, for example, the company is entitled to include to the input price the services such as the projecting services or the services provided by an architect. IAS/IFRS explicitly prohibitthe capitalizing of training of its employees in any form, also including the "free" training included in the invoiced price of the assets. The assets value shall therefore be additionally reduced by this amount. However, the essential difference consists in the capitalization of interests in the price of the assets. While the IAS/IFRS state that the accounting entity may decide whether to capitalize the interest or not, it explicitly results from the US GAAP that it has to be capitalized and the only exception are the assets created by one's own activities. If the tangible assets have been created by one's own activities, they have to be valued with one's own costs and this price should be comparable to the actual value of comparable assets. Besides the easily determinable direct costs, it also contains the so-called direct-indirect production costs related directly to the production – for example the depreciation of the production equipment used for production.

The value of the reported tangible fixed assets may also be affected by the subsequent expenses expended. Pursuant to the **Czech** legal regulation, the valuation of fixed assets shall be increased by the expenses for completed technical betterment – i.e. superstructures, annex buildings, modernization, reconstructions – that may be accounted for and depreciated by the owner, and namely obligatorily starting from the amount defined in the Income Tax Act (voluntarily also from a lower amount). The technical betterment up to this amount is included in the operation costs. The expenses for repairs and maintenance are included in the operation costs regardless of their amounts. **IAS/IFRS** define that if any expenses arise for the betterment and replacement associated with the fixed assets only after their putting into use, they will increase the assets value only if they will provide a higher future potential – for example the modernization or adjustment of the equipment enabling the application of new production procedures. In other cases, they are considered an ordinary cost only (Kovanicová, 2005). The expenses for repairs of assets are to be entered into costs. The exceptions are the general repairs that shall be registered as technical betterment under specific conditions, i.e. they are activated. However, they are regularly registered in the costs using the accruals for a period during which the repair brings benefit. If, however, the replacement or the renewal of an asset part occurs in an asset-component, the original part will be disposed of and the new one is registered as the acquisition of a separate asset. IASIFRS and US GAAP do not distinguish between the term "technical betterment" used by us and repair and include everything in a single item called "subsequent costs". If they serve to maintain the assets in working order or return them to working order, they shall be included in the costs. If they prolong the life time or improve the assets, they shall be capitalized. It is necessary to point out that both the US GAAP and the IAS/IFRS prohibit the creation of reserves for repairs of assets as this does not absolutely comply with the basic reserve attributes.

Under certain systems and provided that the accounting entity decides so, the fixed assets may be re-valued as at the balance sheet date. Pursuant to the **Czech** legal regulation, there is the obligation to register the assets throughout their life time in the historical price that is only reduced by the cumulated depreciations and rectifying items, if any. Re-valuation of assets is only possible upon the purchase of an enterprise, upon a deposit or transformation of companies. On the other hand, the **IAS/IFRS** standards enable the registration of the assets in the following periods in historical costs or as re-valued. It is therefore possible to use the model of:

a) Historical costs, when the asset item is still registered in historical costs but has to be decreased by the accumulated depreciations and accumulated losses from value reduction determined pursuant to IAS 36 – Reduction of Assets Value, or
b) Actual value. Pursuant to this model, the assets are valued with the up-to-date actual value, reduced by the future accumulated depreciation and losses from value reduction and the re-valuation may occur in both directions. The valuation may therefore be increased or decreased. If the new actual value is higher than the original value, this item will directly affect the owner's equity in the form of a reserve fund from re-valuation. The value reduction is registered as a cost, except for situations when the assets were re-valued upwards in a previous period – the owner's equity item is primarily decreased in this case. Analogously, if the assets value first dropped in comparison with the acquisition price and such drop was registered in the form of costs, the further value growth registers the movement to the revenues first and only the further growths beyond the acquisition price create the reserve fund from re-valuation. This fund may not be distributed to the partners or shareholders and is usually drawn only upon the sale or disposal of the fixed assets. The re-valuations need to be sufficiently updated. If the actual values do not significantly change, it is sufficient to make them every three to five years.

No matter which of the models the enterprise decides to use, it has to use it for the entire assets category, for example office furniture or transportation vehicles, and not only for the individual items.

Value reduction

In the event of temporary valuation reduction, it is impossible pursuant to the **Czech** legal regulations to make a re-valuation but such reduction is expressed indirectly using the rectifying items to fixed assets. These rectifying items are created if the assets value reported to date is lower than the actual value identified during inventory and the value reduction is considered to be temporary. The rectifying items shall be decreased or cancelled in a future period if they are no longer justified. It is prohibited to create rectifying items to the increase of the assets value. If the value reduction is of a permanent character, it is necessary to adjust the depreciation plan starting from the following accounting period.

Pursuant to **IAS/IFRS,** the devaluation is registered analogously. IAS 16 refers to IAS 36 that indicates the possible cases when the value reduction may be accounted. The indications of devaluation represent not only the asset value reduction to a value taking into account the normal wear and tear, but also any external or internal changes in the organization not leading to the value reduction of the fixed assets as such, but leading to a drop in the prices of the products or services manufactured with the use of these assets. Finally, such reduction also devaluates the relevant fixed assets. Potential assets devaluation is assessed by groups that may consist both of individual assets and of a group of assets. The rule is that a group is the lowest possible level in respect of which the net cash flow may be identified. If the net book value of the asset exceeds the price obtainable by return (net selling price of the asset = actual value minus costs of disposal, or the so-called utility value if it is higher) and the loss hereby incurred will be reflected in the Profit and Loss Statement. If the economic conditions favorably change or if the presumed use of the asset favorably changes, the loss from the reduced value shall be cancelled.

Construction Contracts

The revenue relating to long-time contracts recording is the special area of revenue recording. There is the IAS 11 – Construction Contracts in IFRS. There is no similar standard relating to recording revenues in the Czech Republic.

There are income and expenses defined in the conceptual framework of IAS/IFRS. The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of an enterprise and is referred to be a variety of different names including sales, fees, interest, dividends, royalties and rent.[1]

On the other hand the definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of an enterprise.[2] They are for example cost of sales, wages and depreciation. There are not any similar definitions of income and expenses in the CAS.

Recognition of Income and Expense

Income is recognised when increase in the future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. The recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities. Revenue is recognised when it is probable that future economic benefits will flow to the enterprise can be measured reliably. IAS 18 - Revenue identifies separate criteria for each transaction when revenue will be recognised. IAS 18 should be applied in case of:

- the sale of goods and products,
- the rendering of services,
- use by others of enterprise assets yielding interest, royalties and dividends.

Some contracts for the rendering of services are which directly related to construction contracts are dealt with requirement for construction contracts, which are specified in IAS 11- Construction Contracts.

Revenue is defined in IAS – 18 as the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increases in equity, other than increases relating to contribution from equity participants.

[1] IAS/IFRS Framework paragraph 74
[2] IAS/IFRS Framework paragraph 78

Revenue is recorded in fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.[3] The amount of revenue is usually determined by agreement between the enterprise and the buyer or user of the asset. When the inflow of cash or cash equivalents is deferred, the fair value of revenue may be less than the nominal amount of cash or cash receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

Income is recognised when the service is rendered or ownership of the goods or products is transferred in the CAS.

Expenses arise when a decrease in future economic benefits related to a decrease in an asset or increase in a liability has arisen that can be measured reliably. In a case that economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are recognised on the basis of systematic and rational allocation procedures. These allocation procedures are intended to recognize expense in the accounting periods in which the economic benefits associated with these items are consumed or expire.

Revenue and costs associated with construction contracts are determined in IAS 11 Construction Contracts. The nature of activities undertaken in construction contracts is based on situation when the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The main issue is to match the contract costs and revenue to the accounting periods in which construction work is performed. This is the accrual basis application, the effects of transactions and other events are recognised when they occur and they are recorded in the period to which they relate. The IAS 11 is used for recording costs and revenue of construction contract in the financial statement of contractors.

There is the construction contract defined in IAS 11. A construction contract is specially negotiated for construction of an asset or a combination of assets. There are two types of construction contracts:

1. A fixed price contract
2. A cost plus contract

A fixed price contract is defined as a contract in which the contractor agrees to a fixed contract price, which in some cases is subject to cost escalation clauses. A cost plus contract is a contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee. Some contracts may contain characteristics of a fixed price contract and a cost plus contract (agreed maximum price of a cost plus contract).

Contract revenue

Contract revenue comprises:

- The initial amount of revenue agreed in the contract,
- Variations in contract work, claims and incentive payments
    - To the extent that it is probable that they will result in revenue and
    - They are capable of being reliably[4].

[3] IAS 18 paragraph 7
[4] IAS 11 §11

Contract costs comprise:

- Costs that relate directly to the specific contract,
- Costs that are attributable to contract activity in general and can be allocated to the contract
- Such other costs as are chargeable to the customer under the terms of the contract.

There are costs directly related to a contract (direct labour costs, costs of direct materials, depreciation of plant and equipment used directly on the contract, cost of hiring equipment, the estimated costs of rectification and guarantee work) and costs that may be allocated to a contract (insurance, costs of design a technical assistance, construction overheads). Some costs cannot be attributed to contract activity or cannot be allocated to a contract costs (general administration costs for which reimbursement is not specified in the contract, selling costs, research and development costs for which reimbursement is not specified in the contract, depreciation of plant and equipment that is not used on a particular contract) in accordance with IAS 11.

In case that the outcome of a construction contract can be estimated reliably, contract revenue and costs associated with the construction contract should be recognised as revenue and costs by reference to the stage of completion of the contract activity at the balance sheet date. An expected loss should be recognised as an expense immediately (as a provision).

Percentage of completion method

This method for revenue defining can be used when the outcome of construction contract can be estimated reliably. Under the percentage of completion method, contract revenue is matched with the contract costs incurred in reaching the stage of completion. Contract revenue is recognised as revenue in the income statement in the period in which is the work performed. Costs are recognised in the periods in which the work to which they relate is performed. The income (revenue and gains) is recognised during the performance of contract and the revenue is matched to the incurred costs, not to collection of payments. Any expected excess of total contract costs over total contract revenue is recognised as an expense immediately and the provision is made.

Zero - profit method

This method revenue defining is used when the outcome of construction contract cannot be estimated reliably. When the outcome of a construction contract cannot be estimated reliably:

- Revenue should be recognised only to the extend of contract costs incurred that it is probable will be recoverable, and
- Contract cost should be recognised as an expense in the period in which they are incurred.

An expected loss on the construction contract should be recognised as an expense immediately and the provision should be made. The amount of the provision is equal to the total expected loss.

This method should be used during the early stages of a contract when the outcome of the contract cannot be estimated reliably. Contract revenue is recognised only to extend of costs incurred that are expected to be recoverable. When the outcome of the contract cannot be estimated reliably and it may be probable that total contract cost will exceed total contract revenues an expense should be recognised immediately and the provision should be made. When the uncertainties do not occur any more revenue and expenses should be recognised in accordance with the percentage of completion method.

There are no differences between long time and short time revenue recognising in the CAS. CAS Nr. 19- Costs and revenues is concerned with the cost and revenue recognising and posting. There are recorded on the accrual basis (it means they are recognised in the period to match) regardless to the cash-flows. The percentage of completion method is not allowed, revenue is recognised on the term base which is result of contractual agreement (invoicing after completion of partial stages or the whole contract). It is not allowed to report expected profits in the CAS. When an expected loss is recognised the provision can be made. It is the different approach in comparison to IAS/IFRS, where the expected profit is included in the recorded revenue.

The profit or loss recorded in accordance with CAL and IAS/IFRS is different. There are different approaches for costs and revenue determination and the moment of their recording in CAL and IFRS. The main reason for differences is based on the methodical approaches in the long time revenue area (especially construction contracts, long time services rendering). There are two basic ways to revenue determination in IAS/IFRS (the percentage of completion method, the zero-profit method). There are no similar procedure allowed in CAL. CAL are very depending on the tax legislation and the revenue is recorded on real invoicing base. Expected profit or loss of that contract is not considered.

The prudence principle is more applied in IAS/IFRS, especially in the revenue recording. The full amount of revenue is recorded only in case when the profit of the contract can be reliably expected and the contract is nearly completed. Other contracts revenue is recorded only in the incurred costs level.

Recording of the revenue apportioned to each construction period is the main aim of IAS/IFRS. The expected loss must be respected immediately a provision must de done.

There are not any significant differences between the sum of revenue and costs recorded in accordance with CAL and IAS/IFRS in the whole time of construction. Revenue is often divided into periods in a different way. The difference in revenue recording can be minimised by the issuing invoices until the accounting period.

There are revenues recorded up to incurred costs in the case of young contracts and contracts calculated with loss. IFRS are focused on the equivalent revenue recording during the whole construction contract. Cílem IFRS je vykazovat výnosy rovnoměrně po celou dobu realizace kontraktu. Expected loss must be respected a provisions must be created.

Conclusion

The comparative analysis has revealed the following differences. There is no conceptual framework in the Czech accounting legislation. The Act on accounting comprises just the basic accounting principles and requirements laid on accounting and general principles. It does not cover the definition of the basic terms.

There have been found the differences in case of the purchased inventories and also the inventories of own production. The Czech accounting legislation considers all the spear parts as the inventory (with no respect to the input price). That can influence the indicators based on liquidity and the profit.

The differences in valuation of inventories of own production can influence the amount of the assets and the profit. Czech accounting legislation does not comprise the mechanism for the allocation of the indirect costs in to the valuation in relation to the usage of the production capacity. The fixed and variable parts of indirect costs are not divided. This can hide the inefficiency in the usage of the production capacity into the valuation of unsold inventories and can cause artificial increase in the assets.

There are also differences in reporting of the tangible assets in the financial statements. There is defined the aggregation and desegregation of the assets – i.e. component depreciation. Czech accounting legislation does not permit the separate depreciation of the components. The used methodical approaches cause the differences in the structure of the assets and also influence the profit in the year of the component exchange. This negative impact can be eliminated by the provision. Based on the Czech legislation, the costs on the dismantling and removing of the excluded assets cannot be included into the acquisition price. The negative impact can also be eliminated by the provision. Czech accounting law does not allow taking into account the expected residual value by the means of depreciation. The value of the assets is influenced by the differences in real value according the Czech legislation and IFRS. In the area of construction projects, there are no specific provisions in the Czech accounting law. The costs and revenues are reported in accordance with the accrual principle - independent on the cash flow. The percentage of completion method is also not allowed. The revenues are reported in the periods which are comprised in the contracts. The invoices are issued after the finishing of individual phases or after the contract completion. To cover the unrealized profits is not possible; the expected loss can be covered by the provision. The amount of the revenue is not influenced by the phase of the realization, or by the profitable or loss character of the contract.

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