True and Fair View in the Czech Republic: IFRS or Czech GAAP?[#]

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Czech Republic entered the European Union on May 2004. Since 2005, under the E.U. requirements, listed companies should report under International Financial Reporting Standards (IFRS) while non-listed companies use the national regulation (Czech GAAP).

1 Introduction

Without common accounting standards, there could be 27 different national methods of accounting, in addition to the use of IFRS and of US GAAP which is permitted by some EU countries (Whittington, 2005, p. 129). Brown and Tarca (2005, p. 201) warn that "the future of the IASB is tied to the successful introduction of IFRS in Europe". The EU motivates the regulation by referring to the enhanced international comparability and transparency of financial statements and improved access to the international capital markets resulting from IFRS usage (Cuijpers and Buijink, 2005, p. 519).

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

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Schipper (2005, p. 122) states "if the IASB declines to provide detailed implementation guidance for IFRS, I predict that preparers and auditors will turn elsewhere, perhaps to US GAAP or perhaps to jurisdiction-specific European GAAP, for that guidance".

In addition to the use of IFRS by listed companies, many countries adopt international standards for unlisted companies or model their domestic standards on international standards. The Australian government has decided to adopt international standards for the statutory accounts of all domestic companies from 2005, and New Zealand has indicated the year 2007. A recent survey by Deloitte and Touche (2003) suggests that more than 90 countries will either require or permit IFRS for listed companies by 2005. This provides an interesting example for those who argue that accounting standards should be left to competition in the marketplace (e.g. Watts and Zimmerman, 1986).

The requirements for group listed enterprises to prepare IFRS reports from 2005 are established in most transitional economies, but it is still unclear to what extent other enterprises will prepare IFRS financial statements. Concerns about the lack of suitably trained accountants and auditors and the lack of efficient markets to ensure reliable fair values for the IFRS financial statements, have already been expressed (Eccher and Healy, 2000; Sucher and Alexander, 2002). This may cast doubt on whether the financial statements issued under IFRS will be reliable. Indications are that in most of the transitional economies of Eastern and Central Europe, other non-listed enterprises will not have to prepare financial statements according to IFRS (Sucher et al., 2005, p. 574).

Although IFRS are not deemed an equal alternative to Czech laws regulating the compilation of financial reports, Act 563/1991, on accounting, nevertheless stipulated that selected accounting entities are obliged to proceed in accordance with IFRS to compile their financial statement. This exception applies to consolidated accounting entities which have issued securities listed on the official stock exchange market in EU member states. Other accounting entities may choose whether to compile their financial statement in accordance with Czech statutory regulations or in accordance with IFRS.

Unlike international standards, Czech accounting regulations lack a glossary of definitions for basic elements of financial statements, which is

why we shall use the definitions applied in IFRS standards, namely in the Framework. Reliable measurement is expected from all entries involved.

Concerning the initial recognition under Czech laws, the Accounting Act (Section 24) identifies the following measurement alternatives:

- historical costs, i.e. the cost of acquisition of the assets concerned, including the costs related to the acquisition itself,
- replacement/reproduction cost, i.e. the cost for which the assets would be obtained at the time of the accounting statement,
- production costs, which include all direct costs expended on the manufacturing or other activity and that part of indirect costs, which is related to the manufacturing or other activity involved,
- own costs are used to place value on the processed production, including livestock raised, and tangible and intangible fixed assets generated by the enterprise itself,
- nominal value, i.e. the face value.

As of the date of balance, the accounting entities are obliged to record their assets and liabilities as follows:

Tab. 1: Measurement Bases under Czech GAAP

Entry	Upon acquisition	As of the date of balance
Intangible fixed assets	historical costs/ replacement costs/ production costs	net book value or the lower of the following (net book value vs. market price)
Depreciated tangible fixed assets	historical costs / replacement costs/ production costs	net book value or the lower of the following (net book value vs. market price)
Non-depreciated tangible fixed assets	historical costs / replacement costs/ production costs	or the lower of the following (historical costs /replacement costs/ production costs vs. market price)
Shares and ownership interests – controlling influence	historical costs	equivalent valuation

Entry	Upon acquisition	As of the date of balance
Shares and ownership interests – substantial influence	historical costs	equivalent valuation
Realizable securities (long-term)	historical costs	fair value
Inventory purchased	historical costs / replacement costs	or the lower of the following (historical costs /replacement costs vs. market price)
Own products in inventory	production costs	
Receivables	nominal value/ historical costs	or the lower of the following (nominal value/ historical costs vs. market price), or fair value (derivative contracts or receivables hedged by derivatives)
Cash	nominal value	
Short-term securities	historical costs	fair value
Payables	nominal value	as entered in the inventory

IFRS apply the following measurement bases for financial accounting:

- historical cost,
- common replacement/reproduction cost (current cost),
- net realizable value,
- present value,
- fair value.

In the Czech Republic, assets are usually measured through historical prices, while donated or gratuitously procured assets are measured by reproduction acquisition price which is the approximate equivalent of the reproduction cost as defined by IFRS. Under certain circumstances, also the realizable value and the fair value also may be used as the measurement bases for financial accounting. At the same time, Czech regulations virtually ignore measurement methods based on present value (Strouhal – Židlická, 2007, p. 46).

2 Financial Statements

Under Section 18 of the Accounting Act, the financial statements comprise:

- balance sheet,
- profit and loss statement, and
- notes.

At the same time, Section 18 also contains the following unfortunate sentence “the financial statements may also include a cash-flow statement and the statement of changes in equity.” This means that under Czech laws, the cash-flow statement is not an obligatory component of the financial statements, not even for the accounting entities which are liable to statutory audit[1] (Strouhal, 2006, CD).

On the other hand, international standards stipulate that the above statements be an integral part of the financial statements. The subsequent text deals mainly with the balance sheet and the profit and loss statement (income statement).

Unlike Czech regulations, international standards do not define accruals and deferrals as separate accounting entries, but rather integrate them among receivables (deferred revenues) and liabilities (accrued expenses).

At the same time, the Czech regulations do not require the separate reporting of discontinued operations (Dvořáková, 2006, pp. 171-172),

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[1] The accounting entity must undergo a statutory audit of its financial statement, if it fulfils one or more of the following conditions over two successive accounting periods:

- the balance sum exceeds the amount of CZK 40 000 000,
- net sales (pursuant to Value Added Tax Act) exceeds CZK 80 000 000, and
- converted number of employees is higher than 50 persons.

Joint-stock companies must comply with one of the above conditions, and limited liability companies and cooperatives with two of the above conditions to require statutory audit.

Accounting entities which are obliged to undergo the statutory audit are also requiring compiling the annual report (which is also subject to statutory audit). Audited accounted entities are obliged to compile the annual statement in its full extent. If the accounting entity is not subject to statutory audit, but undergoes the audit voluntarily, it may compile its annual report in simplified form and extent.

while IFRS stipulate that discontinued operations be disclosed and presented separately in accordance with IFRS 5. In particular, IFRS 5 stipulates that:

- the sum of the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognized on the measurement to fair value less cost to sell or fair value adjustments on the disposal of the assets (or disposal group) should be presented as a single amount on the face of the income statement,
- detailed disclosure of revenue, expenses, pre-tax profit or loss, and related income taxes is required either in the notes or on the face of the income statement in a section distinct from continuing operations.

There exist two basic differences between the profit and loss statement compiled in accordance with Czech rules and in compliance with IFRS (Dvořáková, 2006, p. 292):

- IFRSs have revoked the obligation to report extraordinary expenses and extraordinary revenues – as of 1st January 2005, accounting entities disclose extraordinary expenses and revenues under their other expenses and revenues;
- Czech regulations have included the entries re-allocation of expenses to inventory and fixed assets and change in inventory of finished goods and work in progress among the revenue entries. However, since IFRS do not recognize the above entries as revenues, they have been included among adjustments to operating expenses.

Firms with international stock exchange listings face additional capital market pressures (Meek et al, 1995) and stock exchange requirements (Cooke, 1992) that may lead them to increase their level of disclosure. Investors demand information about the domestic operating environment and domestic accounting regulations of foreign listed firms (Nobes and Parker, 2002). Many stock exchanges around the world allow foreign registrants to prepare their financial statements according to IFRS or US GAAP. Prior studies show that the level of disclosure (Cooke, 1992; Meek et al., 1995) and the probability of using non-local GAAP (El-Gazzar et al., 1999; Murphy, 1999; Ashbaugh, 2001; Dumontier and Raffournier, 1998; Leuz and Verrecchia, 2000; Leuz, 2003) are positively associated with the number of foreign stock exchange listings of a firm.

The impact on financial reporting of cultural differences has been well documented (Nobes and Parker, 2002, pp. 18-19; Radebaugh and Gray, 2002, pp. 42-48). There may be more disclosure by UK or US companies that have a culture of disclosure of information than by companies that have not traditionally aimed to produce especially transparent financial statements (e.g. companies from transitional economies such as Czech Republic).

2.1. Basic differences in reporting under IFRS and Czech GAAP

Intangible fixed assets

The value of intangible fixed assets is measured by historical cost (acquisition price) for assets purchased, by production costs for internally generated assets and by replacement price for assets obtained gratuitously. Intangible fixed assets are subject to amortization,[2] the amortization period is stipulated by the Income Tax Act. The intangible fixed assets must be accounted for in compliance with the prudence principle as of the balance day, meaning that the accounting entity should disclose either the net book value of the intangible fixed assets,[3] or the lower present market price.[4]

IFRS: IAS 38 – Intangible assets, IFRS 3 – Business Combinations.

Intangible assets may be measured by two basic models over the period of possession: historical costs model and the revaluation model. If the accounting entity applies the historical costs model, the assets shall be subject to continual amortization and their value shall be decreased and disclosed in compliance with IAS 36. If the accounting entity uses the revaluation model, the asset shall be regularly revaluated to its fair value and consequently depreciated. If the asset value is impaired, the accounting entity must proceed in compliance with ISA 36. The revaluation to fair value which is higher than the original value shall be

[2] The book depreciation for intangible fixed assets is equal to tax write-off. Tax write-offs are derived from linear distribution.

[3] Residual cost = input price (i.e. acquisition price, replacement price, own costs) – adjustments (i.e. accumulated depreciation).

[4] In this case the accounting entity enters only a temporary adjustment entry. After the lapse of the reasons for the revaluation, the accounting entity lapse deletes the entry.

accounted for under the revaluation fund and recognized in equity, while the impairment loss should be recognized in profit or loss – see IAS 36.[5]

Intangible fixed assets may be amortized only if it is possible to make a reliable estimate of its useful life. The applicable amortization methods are virtually the same as the methods applied for the depreciation of tangible assets.

Unlike under the Czech regulations, the incorporate expenses as well as research and development should be accounted for under expenses. Under certain circumstances, R&D may also be capitalized in the balance sheet. Goodwill pursuant to IFRS 3 should be disclosed only in the event that the goodwill was generated by acquisition.

Advance payments may be offset against debts from the same title.

Tangible fixed assets

The value of the tangible fixed assets is measured by historical costs (acquisition price) for assets purchased, by production costs for processed production and by replacement price for assets obtained gratuitously. Tangible fixed assets are subject to depreciation[6], the accounting books should show the so-called book depreciation[7]. The tangible fixed assets must be accounted for in compliance with the prudence principle as of the balance day, meaning that the accounting entity should disclose either the net book value or the lower present market price of the tangible fixed assets concerned.

IFRS: IAS 16 – Property, plant and equipment, IAS 17 – Leases, IAS 40 – Investment property, IAS 41 – Biological assets.

[5] If the accounting entity creates a revaluation fund for the asset concerned, it shall account for the asset under equity at first until the fund is completely withdrawn. After that, the accounting entity should account for the reduction of the fair value of the asset under expenses.

[6] With the exception of land, works of art and art collection, which are not subject to depreciation.

[7] The calculation of the tax base should incorporate deduction under the Income Tax Act – i.e. the so-called tax deductions. The Income Tax Act entitles the accounting entities to use linear or accelerated depreciation. Selected accounting entities use the differences between the book net value and the tax residual value of the fixed assets to calculated deferred tax liabilities.

Tangible assets may be measured by two basic models in the course of possession: historical costs model and the revaluation model. If the accounting entity applies the historical costs model, the assets shall be subject to continual amortization and their value shall be a be decreased and disclosed in compliance with IAS. If the accounting entity uses the revaluation model, the asset shall be regularly revaluated to its fair value[8]. If the asset value is impaired, the accounting entity must proceed in compliance with IAS 36.The revaluation to fair value which is higher than the original value shall be accounted for under the revaluation fund and recognized in equity, while the impairment loss should be recognized in profit or loss.[9]

Tangible fixed assets shall be depreciated in compliance with IAS 16[10], while the accounting entity shall determine its useful life by itself. Unlike under Czech regulations, accounting entities are entitled to write off real property since the year 2004 provided that it would be possible to determine their useful life. It is also possible to write off a part of the property if the costs of property acquisition include also property development expenses – this part of property value may be allocated to costs at the moment when the costs expended start yielding a revenue.

Advance payments may be offset against debts from the same title.

In the event of property investments reported under IAS 40, the value is measured mainly by means of the revaluation model. At the same time, same as in IAS 16, the accounting entity is also entitled to use the alternative – historical costs model. Reporting procedures are the same as with other assets reported under IAS 16.

The rules pertaining to finance leases under international standards are completely different from Czech regulations. While in the Czech Republic, the subject of finance lease is accounted for by the lessor in his balance sheet (usually a leasing firm) and the lessor also writes it off, and

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[8] If the market price is not known, the fair value shall be determined based on replacement costs reduced by an adequate depreciation of the asset concerned.

[9] As was the case with intangible fixed assets, if the accounting entity creates an revaluation fund for the asset concerned, it shall account for the asset under equity at first until the fund is completely withdrawn. After that, the accounting entity should account for the reduction of the fair value of the asset under expenses.

[10] Possible depreciation methods permitted by the standard include straight-line depreciation, activity depreciation, declining-balance depreciation, DDB (Double-Declining-Balance Method) or SYD (Sum-of-the-Years-Digits) method.

the lessee is only entitled to include lease instalments among his expenses and must disclose the asset under off-balance sheet records, IAS 17 applies the rule that substance takes precedence over form.

Pursuant to the above standard, at the commencement of the lease term, the lessee should record the finance leases as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments. The lessee's depreciation policy should comply with IAS 16.

Same as in the Czech Republic, assets held for operating leases should be presented in the lessor's balance sheet.

To conclude, unlisted enterprises should use the data recorded in the schedule to annual accounts, where the accounting entity provides information about its off-balance sheet assets and liabilities and then incorporate the data in its own financial analysis to avoid any distortions of the economic results.

Inventories

At the time of acquisition, the value of inventories is measured by the historical costs (acquisition price – for purchased inventories), replacement price (for inventories obtained gratuitously) and production costs (for processed production).

For the measurement of the value of inventory decrement, the same cost formula should be used for all inventories with similar characteristics as to their nature and use to the enterprise. For groups of inventories that have different characteristics, different cost formulas may be justified, including FIFO (First in First Out), weighted average cost formula, fixed inventory price with independent disclose of variations or the actual acquisition price.

Inventories must be accounted for in compliance with the prudence principle as of the balance day, meaning that the accounting entity must record the inventories with their book value or with their lower present market value.

IFRS: IAS 2 – Inventories, IAS 41 – Biological assets.

Inventories are reported in accordance with the same principles as followed by applicable Czech regulations, with the exception of Spare Parts Inventory, which is not recorded among Inventories but under IAS 16 as Property, Plant and Equipment.

It is also necessary to bear in mind that processed production in the accounts change in inventory (stocks) and re-allocation of expenses to inventory and fixed assets do not comply with the definition of revenues, which is why they are recorded as adjustments to operating expenses. The above accounts are not recorded under the function-based classification of operating expenses.

At the same time, IAS 2 stipulates much stricter terms with respect to the measurement of processed production, particularly in the following areas:

- separation of fixed production overhead and variable overhead; only that part of the fixed production overheads which is based on the normal capacity of production facilities may be allocated to the costs of conversion,
- prohibition of re-allocation of expenses not expended productively (such as scrap and waste),
- permission to allocate administration overheads only provided that the accounting entity demonstrates incontestable relation between the expended administration overhead and inventory procurement.

Same as under the Czech regulations, it is not possible to revaluate the inventories to higher value. Advance payments may be offset against debts from the same title.

Receivables, payables and credits

Both receivables and payables should be measured by their nominal value, unless obtained in exchange for consideration, in which case they should be measured by their acquisition price. Accounting entities must convert receivables and payables in foreign currencies as of the moment of their measurement in Czech crowns in accordance with the current exchange rate of the Czech National Bank or a fixed exchange rate. As of the balance date, the accounting entities must also convert the sum of pending receivables and payables to Czech crowns in accordance with the

current exchange rate of the Czech National Bank. Foreign currency exchange losses and gains should be recognized in the income statement.

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

Credits and financial assistance should be measured by their nominal value.

IFRS: IAS 12 – Income Taxes, IAS 32 – Financial Instruments: Presentation, IAS 39 – Financial Instruments: Recognition and Measurement, IFRS 7 – Financial Instruments: Disclosures.

Receivables and liabilities are generally perceived as financial assets or financial liabilities to be recognized in accordance with standards applicable to financial instruments. Long-term receivables and payables should be recognized in their present value; the settlement of the difference between the present and nominal value is performed by means of an effective interest rate. Due to their time character, short-time receivables and payables are normally recognized at their nominal value and the discounting to their present value is not required.

Receivables and payables from derivatives contracts should be recognized under IFRS in the FVPL/HFT portfolio. When used as a hedging instrument, it is necessary to proceed in accordance with IAS 39. For fair value hedges the change should be recognized in profit or loss, cash-flow hedges and hedge of foreign investments in foreign operation should be recognized in equity.

As in the Czech Republic, the measurement of deferred tax liabilities under IAS 12 is performed in accordance with the liability method. This means that deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled (liability method), based on tax rates/laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities should not be discounted under IAS 12. Advance payments may be offset against debts from the same title.

Cash

Short-term financial assets included among the current assets of an enterprise. We distinguish between cash in hand, cash at bank and short-term securities. Cash items are measured at their nominal value, while short-term securities are measured by the historical costs (acquisition price).

IFRS: IAS 32 – Financial Instruments: Presentation, IAS 39 – Financial Instruments: Recognition and Measurement, IFRS 7 – Financial Instruments: Disclosures.

Cash items are included among financial assets and should be recognized in accordance with standards dealing with the reporting of financial instruments. Short-term securities should be recognized in the portfolio of financial assets intended for trade under FVPL/HFT (at Fair Value Through Profit and Loss / Held For Trading), revaluated to their fair value with impact on profit or loss.

Provisions

The Accounting Act defines 5 types of reserves – provisions for risks and losses, provisions for income tax, provisions for pensions and similar obligations, provision for restructuring, technical provisions or other provisions pursuant to special legal regulations (statutory provisions). The

Provision Act stipulates three types of provisions for enterprises: provision for repairs of tangible assets, provision for cultivation of crops, other provisions (for the removal of mud from a pond, for the redevelopment of plots affected by mining, for the settlement of mine damage or provisions stipulated by special laws as costs required to achieve, ensure or maintain revenues).

IFRS: IAS 12 – Income Taxes, IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

In accordance with IAS 37, an enterprise may recognize a provision if, and only if a present obligation (legal or constructive) has arisen as a result of a past event; it is more likely than not that to settle such an obligation, an expenditure of profitable income is required; and the amount can be estimated reliably.

The amount recognized as a provision should be the best estimate or the most probable result. However, it may also be measured as the present value of future expenditures, in case the obligation is to be settled over the course of several future periods, or in a period which does not subsequently follow the accounting period in which the provision has been recognized; or if the amortized cash value is considered to have a major impact.

IAS 37 does not allow provisions for future operating losses, since they do not meet the requirements which constitute an obligation or the general principles for the recognition of provisions. Instead, it is necessary to consider possible asset value impairment, and apply IAS 36 – Impairment of Assets.

Furthermore, IAS 37 does not allow the recognition of a provision for the repair of tangible assets[11]. Since in accordance with IAS 16, assets with different useful life are depreciated separately, and expenditures for asset maintenance or replacement are activated subsequently.

On the other hand, an enterprise may recognize a provision for an onerous (loss-making) contract. Provisions for restructuring may also be

[11] IAS 37 does not allow other tax-effective provisions popular in the Czech Republic, such as the provision for the removal of mud from a pond, or the provision for reforestation, since they do not meet the prerequisites for a provision pursuant to the standard.

recognized, if all general criteria for the recognition of provisions have been met. Provision for income taxes is recognized as a tax liability, in accordance with IAS 12.

Conclusion

The most significant problem of financial statements and items shown is the complete inconsistency of measurement bases and the application of the historic (acquisition) cost, fair value and the present value (Buus – Strouhal – Brabenec, 2007, p. 36). At present, the principle of measurement based on the historical cost fades out as it is being gradually replaced by the IFRS trend of reporting fair values, which are, however, difficult to measure in less transparent markets. At the same time, the reporting based on fair value is includes a hidden danger of future volatility of such values and the consequent impact of the changes on financial statements.

Jindřichovská and McLeay (2005) states that "the Czech market is similar to more developed markets, at least in one respect: There is statistically significant evidence of different market effects of profits and losses, in that profits are more persistent than losses. However, contrary to the findings in more developed markets, there is no statistically significant evidence of earnings conservatism in the Czech market" (p. 635). These results are most probably due to the continuing influence of restrictive tax regulations that mitigate any tendency towards conservatism, as well as the transitional nature of the economy. In conclusion, if changes in market prices signal good news and bad news about future risky outcomes, there is no evidence of asymmetry in the Czech market in accounting for such risks.

The principal differences in reporting balance sheet entries can be summarized as follows:

- unlike in Czech GAAP, IFRS allow the revaluation of an (in)tangible asset even for a higher (fair) value based on the revaluation model, reflected in the capital reserve;
- unlike in Czech GAAP, intangible fixed assets do not include organization costs and research, included directly in expenses in the IFRS;
- unlike in Czech GAAP, tangible fixed assets include items procured by financial leasing;

- unlike in Czech GAAP, it is possible, under certain circumstances, to depreciate property;
- according to the IFRS, tangible fixed assets also include spare parts, which the Czech GAAP recognize as inventories;
- unlike in Czech GAAP, inventories do not include spare parts, which are reported as tangible fixed assets;
- unlike in Czech GAAP, IFRS require a strict distinction between fixed and variable overheads, and do not allow the activation of unproductively expended costs;
- in accordance with IFRS, long-term receivables and long-term liabilities should be valued based on their present value, not their nominal value used under Czech GAAP;
- under certain conditions, IFRS allow to report provisions at their present value.

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True and Fair View in the Czech Republic: IFRS or Czech GAAP?

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ABSTRACT

The globalization and the expansion of markets, as well as the general progress in the technologies available have brought new problems to the compilation of financial reports and to the ascertainment of trading income of supranational corporations and groups in accordance with statutory regulations of countries involved. From the year 2005 should public listed companies in the Czech Republic report under IFRS framework, while the non-listed companies still report under Czech accounting principles. This duality may lead to discrepancies with respect to the identification of free cash flow, which is considered the basic information required for the income-based business valuation. The paper deals with the basic difference in the identification and valuation of assets and liabilities in listed companies (which report under IFRS) and non-listed companies (which report under Czech GAAP).

Key words: Financial Reporting; European Union; IFRS; Czech GAAP.

JEL classification: M41.