

# FINANCIAL ACCOUNTING STANDARDS IN CONNECTIONS

IVANA VALOVÁ

Masaryk University, Faculty of Economics and Administration

## Key words

Generally Accepted Accounting Principles (US GAAP), Accounting regulation harmonization, International Financial Reporting Standards (IFRS), Reporting.

## Resume

Regulation and harmonization are very often discussed. We can find number of definitions and contexts of the terms. The article is engaged in problems of accounting regulation harmonization. Namely, the paper mentions and analyzes possible ways of accounting regulation in the world, gives reasons of regulation harmonization, engages in situation in the Czech Republic and attentions to difficulties of accounting and reporting rules implementation.

## Ways to regulation

Harmonization (i. e. eradicating the differences between particular methods of regulations) has a different territorial scope, eradicates the capital movement barriers and steers for globalization. Financial statements are often only information source about a company. The main reason of harmonization is comparability analysis security for investors and other users.

We can achieve the accounting regulation harmonization by:

1. Legal regulations,
2. Standards,
3. Previous ways combination.

## Legal regulations

Legal regulations are based on the Roman law. They have a form of the statutes that are enforced by law and contains penal clause. They are generally submitted by executive and approved by legislative authorities. The regulations content is not usually affected by

professional associations. Their contingent updating is time-consuming. Subject of accounting regulation is not only accounting, but book closing also. The strict form of regulation can lead to consolidation (e. g. setting of a chart of account). There is a problem, that the legal regulations are created by a small group of people, who does not have relevant working knowledge and experience in the given field. In addition these people will not take control of abundance of the rules. On this account, the quite a number of the legal regulations is clear of effect.

### Standards

Standards are built up on common law and draw from the experience of providers and users of information. Setting process, content and update of standards are led by agents of professional associations. The standards are consentingly observed. In the case of the standards at first sight it may seem that the absence of penal clauses declines the useful effect of the standards and makes difficult for their enforcement. But contrary is the case.

### Combination of legal regulation and standard

Final possibility of regulation is combination of legal regulation and standard. The way combines advantages both of the access.

## **Regulation of Accounting in the World**

There exists more than one accounting system in the world. We will be engaged in American Standards (US GAAP), International Financial Reporting Standards (IFRS) and Czech Accounting Standards (ČÚS).

### United States of America

The United States of America, Generally accepted accounting principles are accounting rules used to prepare, present and report financial statements for a wide variety of entities, including publicly-traded and privately-held companies, non-profit organizations and government. Generally accepted accounting principles, commonly abbreviated as US GAAP, includes local applicable Accounting Framework, related accounting law, rules and Accounting Standard. US GAAP is not written in law.

## International Financial Reporting Standards

International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS),<sup>1</sup> are a set of international accounting directives. The standards and interpretations are adopted by the International Accounting Standards Board (IASB), formerly International Accounting Standards Committee (IASC).

The qualitative characteristics of financial statements are understandability, relevance, reliability and comparability. IAS accentuate on **fair value**.<sup>2</sup> Financial reporting should provide information that is useful to present to potential investors and creditors and other users in making rational investment, credit and other financial decision. The most important information is field of economic resources, the claims to these resources and the change in them.

## European Union

All listed EU companies (including banks and insurance companies) have been required to use IFRS since 2005. In order to be IFRS approved for use in the EU, standards must be endorsed by the Accounting Regulatory Committee (ARC), which includes representatives of member state governments and is advised by a group of accounting experts known as the European Financial Reporting Advisory Group.

## **Implementation of International Financial Reporting Standards**

### Reasons of International Financial Reporting Standards in European Union

The EU directives had been amended, modified and changed many time. They were frequently out-of-date and rigid. The European Union was not able to secure the harmonization of Accounting Systems of their member counters. Because of it, the European Union implemented the International Financial Reporting Standards.

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<sup>1</sup> IAS were issued between 1973 and 2001 by the board of the International Accounting Standards Committee.

<sup>2</sup> 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.

### Integration of International Financial Reporting Standards to Czech legislation

After the Czech Republic becomes a member of the European Union, International Financial Reporting Standards are valid for all accounting subjects, which are issuer of a security registered in the regulated securities market.

### Harmonization of IFRS and US GAAP

The US GAAP provisions differ somewhat from IFRS, though efforts are underway to reconcile differences in principles so that financial statements created under international standards will be considered acceptable within the United States, and US GAAP financial statements will be acceptable internationally.

### **Conclusion**

We can achieve harmonization of accounting regulation by legal regulations, standards or the previous two ways combination. Practice has showed that enforcement of the standards is more effectively than in case of the legal regulations.

We know a number of Accounting Systems: American Standards, International Financial Reporting Standards, Czech Accounting Standards and so on. On the part of the United States of America there is pressured in recent years on converging US GAAP and IFRS. The main reason is to ease an entry of foreign investors to the financial market.

Czech legal regulations are changed to correspond to National standards and International Financial Reporting Standards, International Standards of Auditing and to conform to fourth, seventh and eighth EU directions. Unfortunately, till this time there are not solved the basic problem areas (e. g. leasing, evaluation and so on). Harmonization of accounting regulations is due to ensure a comparability analysis and transparency of final accounts.

### **Address where author could be contacted – email:**

*Ing. Ivana Valová  
Masaryk University  
Faculty of Economics and Administration  
fipo@centrum.cz, valova@mail.muni.cz*