Introduction
The financial system of market economy is based on the trust in accounting data. Without this trust investors do not invest, banks do not provide credits, entrepreneurial spirit disappears, entrepreneurs dismiss employees, unemployment grows and the economy collapses. Moreover any financial analysis based on accounting data becomes worthless as the reality is totally different.

1. The Issue of IAS/IFRS
Accounting principles should not be soft, but the reality of last years shows that they become softer and softer. The principles softening consists in the fact that the bookkeeping enables to overestimate assets and to reduce liabilities. Thus units that should extinct regarding the fact that their liabilities really exceed their assets still exist. But accounts of such units still show the predominance of assets over liabilities [10].

It is necessary to set such accounting that would be comprehensible, the same for all units, transparent, low-cost and with clear rules at the same time. The Czech accounting rules do not still conform to these attributes. It is split in six directions following directives for individual groups of units. The fact that entities can account the same reality in different way is basically in contradiction with International financial reporting standards (hereinafter only as IFRS).

As the accounting and account statements harmonization is perceived as part of the unified European entrepreneurial environment, having the goal to provide the comparability of business entities, the European Commission has approved, in 2002, the directive based on which the companies that admit their shares at regulated markets shall issue their final accounts according to IFRS, starting from the accounting period from 1st January 2005 [17].

This directive has affected also Czech companies that trade their shares in the Prague Stock Exchange.

With regards to the requirement to inform stakeholders, each of IAS/IFRS standards imposes the requirement on publication. The partial goal of this text is to evaluate if individual companies really publish all required information and if thus their book-keepings fulfil the function of relevant information provision and if the analyses companies publish such information in similar way if there are considerable differences.

IAS/IFRS standards are invariable. The effort to harmonize IFRS with accounting standards issued in the United States of America (US GAAP) and needs resulting from practical application of standards permanently evoke the improvement and adaptation of these standards.

Till the end of the year 2002 all international standards were publishes under the abbreviation IAS (International accounting standards).

Since 2003 the new standards are issued under the abbreviation IFRS (International financial reporting standards). The current IAS remain valid until they are updated and replaced with new IFRS in the future [18].

The International financial reporting standards and interpretation are accepted in form of directives within EU. Thus the standards and interpretations are valid for the whole EU without the necessity to take them over into national legislation.

In October 2003 the directive of EU No. 1725/2003 [3] on acception of several international accounting standards in accordance with the directive No. 1606/2003 [17] has come into force. Based on it the European Commission approved all standards except for IAS 32 (Financial tool: presentation) and IAS 39 (Financial instruments: recognition and measurement).

Thus IAS 39 was not valid in its full scope and in November 2009 the International Accounting Standards Board issued IFRS 9 – Financial instruments that partially replaces IAS 39 and in October 2010 its further part was issued [10].

Initially it was determined that the standard was valid for the accounting period starting on 1st January 2013. But, as per January 2013, the standard IFRS 9 was not still a part of the European IFRS version.

On the 24th July 2014 IASB published the final version of this standard that enters into force on the 1st January 2018.

Nevertheless it is possible to apply the IFRS Standard even now. Regarding the above mentioned subsequent transformation of IFRS 9, that considerably increased the complexity within financial instruments accounting, this text is also dedicated to the verification if monitored companies use the original standard IAS 39 or have passed in advance to IFRS 9 in accounting of financial instruments.

Thus there are three goals of this text. They should serve for confirmation or negation of following hypotheses: a) H1: Analysed companies publish all information required by IAS/IFRS standards and their book-keeping fulfills the function of relevant information provision. b) H2: Analysed companies follow in publishing of obligatory information resulting from IAS/IFRS, similar procedures, i.e. there is no statistically important difference in their reporting. c) H3: Analysed companies use the original standards IAS 39 – Financial instruments: accounting and evaluation, for accounting of financial instruments.

2. Methods
Companies emitting their shares through the Prague Stock Exchange at the prime market, with highest trading volume for 2013, were chosen for the research.

There are nine companies that fulfil such conditions (see the table 1). In addition, the following sectional standards were chosen:

| IAS 1 – Presentation of financial statements, |
| IAS 2 – Inventories, |
| IAS 7 – Statements of cash flows, |
| IAS 8 – Accounting Policies, Changes in accounting estimates and Errors, |
| IAS 16 – Property, plant and equipment, |
| IAS 17 – Leases, |
| IAS 18 – Revenue, |
| IAS 37 – Provisions, Contingent liabilities and Contingent assets, |
| IAS 38 – Intangible assets, |

Based on requirements of chosen standards IAS/IFRS on information publishing and on the really published information the chosen company was evaluated if it provided obligatory information for specific standard.

The hypothesis H1 is tested using the signed-rank statistical test [15]: Analysed companies publish complete information required by standards IAS/IFRS and thus their book-keeping fulfills the function of relevant information provision.

The hypothesis H2 was subsequently verified using the Friedman non-parametric statistical test [15]: Analysed companies follow in publishing of obligatory information resulting from IAS/IFRS a similar way, i.e. there is no statistically important difference in their reporting.

The hypothesis H3: Analysed companies use the original standards IAS 39 – Financial instruments: accounting and evaluation, for accounting of financial instruments. The signed-rank statistical test was also performed.

The missing data were assigned with average value of variable, which is one of options for data correction [13]. Qualitative variables were transformed into binary dichotomous variables which is one of methods for data coding [13].

3. Analysis of the Issue
Regarding the fact that this text treats freely available information that the companies are obliged to publish, the titles of companies are stated.

As said above, there were nine analysed companies, see the Table 1.

3.1 Testing of the Hypothesis H1
Hypothesis H1: Analysed companies publish complete information required by standards
IAS/IFRS and thus their book-keeping fulfils the function of relevant information provision.

H1 test the hypothesis that the analysed companies publish all the information required by IAS / IFRS, i.e. the reported values are 1.

If companies disclose all required information is entered, the reported value is 1. If companies do not publish all the required information is entered 0. If companies publish the required information only partially entered value of 0.5.

The hypothesis $H_{10} = 1$ is tested compared with $H_{11} \neq 1$.

For calculation of the sign-ranked test the differences $x_1 - 1$, $x_2 - 1$ … $x_n - 1$ were made and the random quantity was introduced to determine the number of differences $x - 1$ that have the positive sign. Subsequently evaluated the number of 53 positive differences $x_i - 1$, which have a positive sign and could thus be carried out test.

$Y = 53$ (number of positive differences), $n = 90$ (size of selection).

The critical zone is defined as follows: [15]

$$W = \{ Y: Y \leq k_1 \cup Y \geq k_2 \} \quad (1)$$

For the size selection $n = 90$ the limits are defined [14] $k_1 = 35$, $k_2 = 55$. The value of testing criterion $Y = 53$ has fallen within the zone of acceptable values, the hypothesis $H_{10}$ was not refused.

3.2 Testing of the Hypothesis $H_2$

$H_2$: Analysed companies follow in publishing of obligatory information resulting from IAS/IFRS a similar way, i.e. there is no statistically important difference in their reporting.

Friedman test is an extension Wilcoxon selection test to the case of three or more selections. This is a generalization of two-factor analysis of variance with one observation in each subclass. Not expected normal probability distribution nor compliance variances.

The Friedman test verifies that the random quantities $Y_{i1}$, $Y_{i2}$, … $Y_{ik}$ are the same. The random quantity is the testing criterion [15]:

$$Q = \frac{12}{J(J+1)} \sum_{i=1}^{J} \left( \sum_{j=1}^{I} R_{ij} \right)^2 - 3J(J+1) \quad (2)$$

where:
- $I$ is the number of respondents (9 companies),
- $J$ is the number of marks (classes – 10 chosen standards IAS/IFRS),
- $R_{ij}$ is the sequence (1st, 2nd, 3rd sequences according to the depending on how they are performing duty of publication).

The critical zone is expressed by following formula:

$$W = \{ Q: Q > x_2 J-1, \alpha \} \quad (3)$$
The Friedman’s test value is not found within the critical zone, thus the hypothesis H2 was not refused.

3.3 Testing of the Hypothesis H3
H3: Analysed companies use the original standard IAS 39 – Financial instruments: recognition and measurement, for accounting of financial instruments.

If companies still use the standard IAS 39, the reported value is 1. If companies do not use it yet 0.

The hypothesis H30 is tested = 1 against H31 ≠ 1.

Subsequently evaluated the number of 3 positive differences xi-1, which have a positive sign and could thus be carried out test.

Y = 3 (number of positive differences),

n = 9 (size of selection).

For the selection size n = 9 the limits k1 = 1, k2 = 8 are defined [14]. The value of testing criterion Y = 3 has fallen within the zone of acceptable values, the hypothesis H30 was not refused.

4. Analysis of the Issue
The hypothesis H1 stating that companies publish information required by standards IAS/IFRS was not refused. The research and the following test have really shown that in fact the companies publish the obligatory information.

In spite of it, several deficiencies were found. It was found that these companies ignore in practice the standard IAS 8 – Accounting Policies, Changes in accounting estimates and Errors. Pursuant to this standard the accounting unit shall publish at least the changes of accounting policy invoked by the change IFRS, changes of accounting estimates and important errors. These errors shall be corrected retrospectively with relevant comments in final accounts. If the company has stated the error, it has not stated the effects of such error on individual items in final accounts.

In addition, indication where found showing that companies preparing their final account following IAS/IFRS consider their account as the necessary evil, i.e. where possible they choose the simpler method. The report on cash flows compiled by indirect method is an example.

Another example of simplification, that can be in contradiction with true and correct image of account, is the classification of tangible property in several few depreciation groups for the purpose of accounting depreciations. The philosophy of IAS/IFRS, from the point of view of accounting depreciations, is to have an individual view on every single tangible property.

In general, the reports prepared pursuant to IAS/IFRS are brief and state only important items [5]. It results in the minimum quantity of items stated in reports and in the disunity of forms. It is in contradiction with requirement on the synoptic book-keeping arrangement.

The Friedman’s test value is not found within the critical zone, thus the hypothesis H2 was not refused.

### 3.3 Testing of the Hypothesis H3

**H3:** Analysed companies use the original standard IAS 39 – Financial instruments: recognition and measurement, for accounting of financial instruments.

If companies still use the standard IAS 39, the reported value is 1. If companies do not use it yet 0.

The hypothesis $H_{30}$ is tested $= 1$ against $H_{31} ≠ 1$.

Subsequently evaluated the number of 3 positive differences $x_{i-1}$, which have a positive sign and could thus be carried out test.

$Y = 3$ (number of positive differences),

$n = 9$ (size of selection).

For the selection size $n = 9$ the limits $k_1 = 1$, $k_2 = 8$ are defined [14]. The value of testing criterion $Y = 3$ has fallen within the zone of acceptable values, the hypothesis $H_{30}$ was not refused.

### 4. Analysis of the Issue

The hypothesis $H_1$ stating that companies publish information required by standards IAS/IFRS was not refused. The research and the following test have really shown that in fact the companies publish the obligatory information.

In spite of it, several deficiencies were found. It was found that these companies ignore in practice the standard IAS 8 – Accounting Policies, Changes in accounting estimates and Errors. Pursuant to this standard the accounting unit shall publish at least the changes of accounting policy invoked by the change IFRS, changes of accounting estimates and important errors. These errors shall be corrected retrospectively with relevant comments in final accounts. If the company has stated the error, it has not stated the effects of such error on individual items in final accounts.

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For completeness’ sake it is necessary to add that some information on individual standards had to be evaluate as the neutral value as the given standards are not used in the company, due to its activity character, for example the company VIG does not account on Inventories and uses the standard IFRS 4 – Insurance contracts, for its Revenue.

The hypothesis H2 has confirmed that analysed companies follow similar procedures in publishing of their obligatory information based on IAS/IFRS, i.e. there is no statistically important difference in their reporting. This phenomenon reflects the fact that there is some level of particularity in reporting that in general does not maximally conform to standards IAS/IFRS but is acceptable for users of accounting information.

Hypothesis H3: It was confirmed that the analysed companies use the original standard IAS 39 – Financial instruments: recognition and measurement, for accounting of their financial instruments. The difficult and long-term approval procedure of amendment act on IFRS 9 – Financial instruments, that shall replace IAS 39, is solved by companies by temporary accounting following the original standard IAS 39. The reason probably consists also in implementation costs, that following [8] include the project team, training of employees and IT employees, internal audit, consultancy of technical and fiscal character, changes in software as well as internal systems, etc.

Conclusions

Testing of above mentions hypotheses showed the quality level of published information resulting from requirements of IAS/IFRS.

It was found that companies duly prepare their final accounts and fulfil most of requirements on information publishing. It was also statistically confirmed that companies use the similar procedure, i.e. there are no considerable differences at the level of information provision among companies. In the same way, some minor defects were found at most of monitored companies. And the trend of maximized simplification, were allowed by standards IAS/IFRS, was also observed, which is documented also by accounting pursuant the current IAS 39 even if the possible and in the future obligatory implementation of IFRS 9 is obvious. The possible reasons consist in costs of IAS/IFRS implementation that will be subject of further research.

References


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Abstract

INTERNATIONAL FINANCIAL REPORTING STANDARDS APPLIED IN THE CZECH REPUBLIC

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This article provides an extensive analysis of application of International Financial Reporting Standards companies with publicly traded shares in the Czech Republic for 2013. At first the attention is paid to the basic requirements of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and to evaluation of proposed method. Then followed research results, based on an answer to the question of whether the companies are preparing their financial statements in accordance with IAS / IFRS, i.e. whether they serve plenty of mandatory information, and further whether individual companies act similarly. The object of the research consists in further observations regarding the implementation of the new IFRS 9 Financial Instruments, which is designed to replace IAS 39 Financial instruments: recognition and measurement. The level of the information presented was evaluated using a signed test. Using this statistical method we can conclude that companies submit their financial statements in accordance with IAS / IFRS. Using the Friedman test, it was found that the group of companies proceeds with the application of individual IAS / IFRS alike. Only two of seven respondents have already implemented IFRS9. Statistical analysis confirmed that companies reported, in their financial statements, all mandatory information that is relevant to stakeholders. On the other hand, there are also signs pointing to the contrary, but these are not statistically significant. This analysis was provided with detailed knowledge about this phenomenon.


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