



# Accounting news

Czech Accounting, IFRS and US GAAP

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## | News on the Inventory-Taking of Assets and Liabilities

The obligation to take inventory of assets and liabilities is set out in Section 6 (3) of Accounting Act No. 563/1991 Coll. (the “Accounting Act”) and is implemented pursuant to Sections 29 and 30 of the Accounting Act. Reporting entities conduct inventory-taking to determine the actual balances of their assets and liabilities and verify whether the actual balances match the balances carried in the accounting books and whether grounds exist for recognising impairment (through the recognition of reserves, provisions or extraordinary write-offs of assets).

There is a need to differentiate between the terms “inventory-check” (inventura) and “inventory-taking” (inventarizace). Inventory-taking is much broader in scope than the inventory-check since it involves inventory-check preparation, performance, resolution of causes underlying the origination of inventory-taking differences, preparation of a proposal for settling these differences and other activities.

In terms of when the inventory-taking occurs, Section 29 of the Accounting Act differentiates periodical and perpetual inventory-taking. **The periodical inventory-taking** is undertaken as of the date on which financial statements (ordinary or extraordinary) are prepared (as of the balance sheet date). The periodical inventory-taking should extend to all assets and liabilities carried both in the books and kept off-the-books. **The perpetual inventory-taking** can be performed throughout the accounting period only in respect of inventories that are accounted for per type or per location or the responsible persons, and tangible fixed assets that, given the function they play in the reporting entity, are perpetually on the move and do not have a fixed place to which they belong (eg rail waggons). The perpetual inventory-taking term is defined by the reporting entity itself. Each type of inventory and the tangible assets referred to above must be subject to the inventory-taking at least once in the accounting period.

An amendment to the Accounting Act effective from 1 September 2012 brought significant changes in relation to the inventory-taking of assets and liabilities. It was possible to use these provisions for the first time in the accounting period that began in 2012 or later.

**An amendment to Section 30 of the Accounting Act** giving guidance on the inventory-taking of assets and liabilities brought about the following changes:

- Newly defines physical inventory-check (‘fyzická inventura’) and reconciliation (‘dokladová inventura’);
- Contains more detailed instructions on performing the inventory-checks;
- Newly defines the date of starting and completing the inventory-check in relation to the balance sheet date; and
- Expands the mandatory requirements underlying inventory summary sheets (‘inventurní soupis’).

### Physical Inventory-check and Reconciliation

Prior to being amended, Section 30 required the physical inventory-check in respect of tangible and intangible assets and the reconciliation of receivables and payables and other components of assets that cannot be subject to the physical inventory-check. According to the amended wording of Section 30 (1), upon inventory-taking the reporting entities determine the actual balances of assets and liabilities and record them in inventory summary sheets. These balances are ascertained by:

- a. A physical inventory-check of assets, the existence of which can be visually determined; or
- b. Reconciliation of assets and liabilities, the existence of which cannot be visually determined, including other assets, other liabilities and matters reported in the off-balance sheet accounts.

### New More Detailed Guidance on Conducting Inventory-checks

Section 30 was amended to include new guidance that was not included in the original version of the Accounting Act as follows:

- Upon the inventory-taking, the reporting entities proceed by performing one or multiple inventory-checks and verifying whether the actual balance matches the balance carried in the accounting books;
- In conducting the physical inventory-check, the reporting entities may determine the actual balance of assets by counting, measuring, weighing and other similar techniques and/or they can use accounting records that prove the assets’ existence;

- Upon periodical inventory-taking, in determining the actual balance the reporting entities may set a date at which the actual balance is established and which precedes the balance sheet date (the “inventory date”) and may complete the ascertaining of the actual balance according to the accounting records that demonstrate additions to, and disposals of, assets and liabilities that took place between the inventory date and the balance sheet date; and
- The previous paragraph is applied similarly in respect of perpetual inventory-taking.

### New Guidance on the Date of Starting and Completing the Inventory-check in Relation to the Balance Sheet Date

Prior to Section 30 being amended, the guidance was that a physical inventory-check of tangible assets that cannot be performed at the balance sheet date can be performed during the last four months of the accounting period or in the first month of the following accounting period.

The amended Section 30 requires that upon the periodical inventory-taking the reporting entities

- a. Can initiate the inventory-check no sooner than four months before the balance sheet date; and
- b. Complete the inventory-check no later than two months after the balance sheet date.

### Inventory Summary Sheets

The changes outlined above were also accompanied by an amendment to the paragraph setting out the requirements for inventory summary sheets that are supportable accounting records and, according to Section 30 (5), must also newly include:

- Valuation of assets and liabilities upon the periodical inventory-taking at the balance sheet date or also at the inventory date if the reporting entity determined one;
- Valuation of assets and liabilities upon the perpetual inventory-taking at the inventory-check completion date or also at the inventory date if the reporting entity determined one;

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- The date as of which the financial statements are prepared; and
- The inventory date if the reporting entity determined one.

The other subsections of Section 30 have remained unchanged; hence for the sake of completeness we summarise the key guidance:

- Upon the perpetual inventory-taking, inventory summary sheets can be replaced by a supportable accounting record on the performance of the physical inventory-check and accounting for the inventory-taking differences;
- Inventory-taking differences are taken to mean differences between the actual balance and the balance carried in the books that cannot be proved in a manner stipulated in this act when:
  - a. The actual balance is lower than the balance carried in the books and the difference is referred to as a shortage or deficit (on cash and cash equivalents); or
  - b. The actual balance is higher than the balance carried in the books and the difference is referred to as a surplus; and
- The reporting entities account for inventory-taking differences in the accounting period in which the balances of assets and liabilities are determined on the basis of the inventory-taking.

Inventory-taking differences are additionally dealt with in Czech Accounting Standards for Businesses No. 007, namely in terms of defining inventory-taking differences, their accounting treatment and compensation of inventory shortages and surpluses.

## Conclusion

Determining the actual balance of assets, receivables and liabilities is one of the key assumptions underlying the preparation of financial statements. Appropriate inventory-taking may highlight a number of weaknesses in the accounting records and business management and may avert significant losses that the reporting entity could incur. As such, the reporting entities should give increased attention to the inventory-taking of assets and liabilities.

## Invitation

### Seminar News in Czech Accounting

#### Prague, Brno, Ostrava

As in prior years, we have prepared a popular seminar on the news in Czech accounting, this year providing a summary in accounting legislation and the legal and tax news having an impact on companies' financial statements.

The seminar is predominantly intended for accountants, economists and financial managers preparing or involved in the preparation of financial statements under Czech accounting legislation and the related tax and legal regulations and for all of you who want to learn more about Czech accounting and the latest tax and legal developments.

Seminars will be held in Czech in November and December in Prague, Brno and Ostrava and will be delivered by our professionals.

#### Timing

**Prague:** 14 November 2013 and 12 December 2013  
**Brno:** 21 November 2013  
**Ostrava:** 11 December 2013

More information on: [www.deloitte.com/cz/events](http://www.deloitte.com/cz/events)

## IFRS EU Endorsement Process

The European Financial Reporting Advisory Group (EFRAG) updated its report showing the status of endorsement of each IFRS, including standards, interpretations, and amendments, most recently on 12 September 2013.

As of 25 September 2013, the following IASB pronouncements are awaiting European Commission endorsement for use in the EU:

### Standards

- IFRS 9 *Financial Instruments* (issued in November 2009) and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued in December 2011)

### Amendments

- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (issued in October 2012)
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* (issued in May 2013)
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* (issued in June 2013)

### Interpretation

- IFRIC 21 *Levies* (issued in May 2013)

Click here for the [Endorsement Status Report](#)

## IFRS TIPS – IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

This issue of our IFRS Tips covers two questions from our clients relating to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Let us summarise the basic requirements of this standard first.

### Summary of basic IFRS 5 requirements

- The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations.
- The standard introduces the classification 'held for sale' and the concept of a disposal group (a group of assets to be disposed of in a single transaction, including any related liabilities also transferred).
- An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
- For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable.
- For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.
- Non-current assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell.
- Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable IFRSs.
- An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell.
- Non-current assets held for sale (whether individually or as part of a disposal group) are not depreciated.

- Non-current assets classified as held for sale, and the assets and liabilities in a disposal group classified as held for sale, are presented separately in the statement of financial position.
- Assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.
- A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and (a) represents a separate major line of business or major geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale.
- An entity presents as a single amount in the statement of comprehensive income the sum of the post tax profit or loss from discontinued operations for the period and the post-tax gain or loss arising on the disposal of discontinued operations (or on the reclassification of the assets and liabilities of discontinued operations as held for sale). Therefore, the statement of comprehensive income is effectively divided into two sections – continuing operations and discontinued operations.

### Question 1 - Intention to sell an asset within twelve months

#### Background

Entity A has been using an item of plant and machinery for a number of years. Due to changes in its product range, Entity A intends to cease using the asset within the next twelve months and sell it (possibly for scrap).

#### Question

Should the asset be classified as held for sale?

#### Answer

No. The fact that an asset is likely to be sold in the next twelve months, possibly for scrap, is not sufficient for it to be classified as held for sale. Among the criteria for classification as held for sale are that the asset is available for immediate sale and that an active programme to locate a buyer has been initiated. If an entity

needs to carry on using an asset for a period of time before selling it for scrap, it is clear that the criteria for classification as held for sale have not been met because the asset is not available for immediate sale.

### Question 2 - Application of IFRS 5 to 'in-period' disposals of assets

#### Background

Entity X prepares its financial statements to 31 December and it does not prepare interim financial reports. At 31 December 2011, Entity X carried a property asset in its statement of financial position at:

- its revalued amount of CZK 2 million in accordance with the IAS 16 revaluation model.
- its costs of CZK 2 million in accordance with the IAS 16 cost model.

Depreciation is CZK 60,000 per year. In April 2012, management decides to sell the property and it is advertised for sale. By 30 April 2012, the sale is considered to be highly probable. At that date, the asset's fair value is CZK 2.6 million and its value in use is CZK 2.8 million. Costs of disposal of the asset are estimated at CZK 100,000. On 15 June 2012, the property is sold for CZK 2.75 million.

#### Question

Is Entity X required to apply the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to the disposal of the property?

#### Answer

Yes. When the effect is material, the requirements of IFRS 5 should be applied not only for items meeting the criteria for classification as held for sale at the end of the reporting period, but also for all 'in-period' disposals, including assets sold during the reporting period that were not classified as held for sale at the previous reporting date.

**With respect to a) If the property is carried at revalued amounts** (under the IAS 16 revaluation model) the following steps are required:

1. Entity X should determine the date at which the IFRS 5 criteria for classification as held for sale are met (assume the date is determined to be 30 April 2012 in this case).

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2. Entity X should depreciate the property until the date of the reclassification as held for sale. Accordingly, the depreciation expense is  $\text{CZK } 60,000 \times 4 \div 12 = \text{CZK } 20,000$ .
3. The property should be revalued to its fair value at that date of CZK 2.6 million if the difference between the property's carrying amount at that date and its fair value is material. The revaluation increase of CZK 620,000 (CZK 2.6 million – CZK 1.98 million) should be recognised in other comprehensive income in accordance with IAS 16.
4. Entity X should consider whether there is any indication that the asset is impaired. Therefore, the carrying amount of the asset (fair value) should be compared to its recoverable amount determined under IAS 36 Impairment of Assets as higher of value in use and fair value less costs of disposal. If the recoverable amount is lower, an impairment loss should be recognised. Given that the revalued asset has already been remeasured to fair value at step 3, impairment at step 4 would only arise if the value in use of the asset is lower than its fair value. In the above example, no impairment loss is recognised because the value in use of CZK 2.8 million is higher than fair value less costs of disposal of CZK 2.5 million. (Note: If any impairment loss were identified at this point, it would be accounted for as a revaluation decrease under IAS 16.)
5. The property should be reclassified as held for sale and measured at the lower of their carrying amount (CZK 2.6 million) and fair value less costs to sell (CZK 2.5 million), i.e. it should be remeasured to fair value less costs to sell (CZK 2.5 million). Because, in this example, the property is already carried at fair value, the requirement to deduct costs to sell results in the immediate recognition of a loss of CZK 100,000. In accordance with IFRS 5, this write-down to fair value less costs to sell should be recognised in profit or loss.
6. When the property is disposed of on 15 June 2012, a profit on disposal of CZK 150,000 is recognised (net proceeds of CZK 2.65 million less the carrying amount of CZK 2.5 million). Any remaining revaluation reserve relating to the property is not recognised in profit or loss, but it may be transferred to retained earnings in accordance with IAS 16.

The application of IFRS 5 in the above example affects the amounts reported in profit or loss, because the valuation movement prior to the date of reclassification (CZK 620,000) is recognised in other comprehensive income and is not subsequently reclassified to profit or loss. In addition to the depreciation expense of CZK 20,000, a net gain of CZK 50,000 is recognised in profit or loss, which comprises the fair value movement after reclassification

(CZK 150,000) less costs of disposal (CZK 100,000). If IFRS 5 had not been applied, in addition to the depreciation expense of CZK 27,500 ( $\text{CZK } 60,000 \times 5.5 \div 12$ ), the net gain recognised in profit or loss would have been CZK 677,500 (net proceeds of CZK 2.65 million less the carrying amount at 15 June 2012 of CZK 1,972,500).

**With respect to b) If the property is carried at cost** (under the IAS 16 cost model) the following steps are required:

1. Entity X should determine the date at which the IFRS 5 criteria for classification as held for sale are met (assume the date is determined to be 30 April 2012 in this case).
2. Entity X should depreciate the property until the date of the reclassification as held for sale. Accordingly, the depreciation expense is  $\text{CZK } 60,000 \times 4 \div 12 = \text{CZK } 20,000$ .
3. The property is carried at cost, therefore there is no revaluation in this phase – this is only in the case a) where the property is carried in revalued amounts.
4. Entity X should consider whether there is any indication that the asset is impaired. Therefore, the carrying amount of the asset (in this case cost less any accumulated depreciation) should be compared to its recoverable amount determined under IAS 36 Impairment of Assets as higher of value in use and fair value less costs of disposal. If the recoverable amount is lower, an impairment loss should be recognised. In this case, no impairment loss is recognised because the value in use of CZK 2.8 million is higher than cost less accumulated depreciation of CZK 1.98 million. (Note: If any impairment loss were identified at this point, it would be accounted for to profit or loss.)
5. The property should be reclassified as held for sale and measured at the lower of their carrying amount (CZK 1.98 million) and fair value less costs to sell (CZK 2.5 million).
6. When the property is disposed of on 15 June 2012, a profit on disposal of CZK 67,000 is recognised (net proceeds of CZK 2.65 million less carrying amount of CZK 1.98 million).

For assets measured under IAS 16's cost model, the application of IFRS 5 will not affect the net amount reported in profit or loss for the period. However, it will affect the amounts disclosed under IFRS 5.41(c) and, when disclosed separately, amounts reported for gains or losses arising on the disposal of property, plant and equipment.

## Invitation

### Seminar IFRS News 2013

Prague, Brno, Ostrava

Dear All,

We would like to invite you to Deloitte's traditional autumn seminar on International Financial Reporting Standards (IFRS).

You will have an opportunity to learn which new standards, amendments and interpretations will have to be taken into account in preparing financial statements for 2013 and which in the following periods. We will introduce new rules which are either already effective or will become effective in the near future and will show their practical application on a number of examples.

The seminar is predominantly intended for accountants, economists and financial managers of projects relating to IFRS and for all who want to know more about IFRS.

Seminars will be held in Prague, Brno and Ostrava in Czech and will be delivered by our professionals.

#### Timing

**Prague:** 23 October 2013 and 27 November 2013  
**Brno:** 12 November 2013  
**Ostrava:** 13 November 2013

More information on: [www.deloitte.com/cz/events](http://www.deloitte.com/cz/events)

## | Introducing US GAAP Plus

This issue of the dReport does not, for a change, bring you any specific accounting news but, by contrast, will tell you where you can find even tens of them.

Are you interested in development of accounting legislation in the United States of America? Then you will like our new web pages [US GAAP Plus](https://www.iasplus.com/en-us) (<https://www.iasplus.com/en-us>) that Deloitte launched this September.

A “subsite” of [IAS Plus](#), our successful and long-established IFRS-related news and content site, US GAAP Plus gives you the same type of comprehensive free coverage — but with a focus on U.S. accounting news and guidance.

US GAAP Plus contains articles on FASB activities and updates to the *FASB Accounting Standards Codification* as well as developments of other U.S. and international standard setters and regulators, such as the PCAOB, the AICPA, the SEC, the IASB, and the IFRS Interpretations Committee. The site gives you access to:

- A [news page](#) (updated almost daily) and an archive of past news.
- An extensive library of Deloitte U.S. and international [publications](#) related to accounting developments.
- Information about and resources related to U.S. and international accounting standards.
- A listing of active FASB projects and convergence projects with the IASB.

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- The “My US GAAP Plus” view, for personalizing your content and following topics of particular interest or relevance.
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In case you need any advice in the area of U.S. accounting legislation, our specialists will be happy to support you.

If you have any questions regarding any of the articles in this publication, please contact one of the following audit experts:

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