Analysis of Differences in Reporting According to IFRS in SMEs in the Czech Republic and its Influence on Performance Measurement

Analýza rozdílností při vykazováni dle IFRS v MSP v České republice a jejich vlivu na měření výkonnosti

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Abstract

New information technologies, development of international economic cooperation and market interconnection call for the need of multinational, globally applicable and acknowledged accounting standards which will enable to describe the processes taking place on the companies´ level, within the extent of the contemporary knowledge, but especially in a comparable form.

These requirements are met e.g. by International Financial Reporting Standards (IFRS) used mainly in Europe. Their fundamental aim is to develop unified, high-quality and understandable global accounting standards. The financial statements prepared according to these standards provide high-quality, transparent and comparable information, which can help the users to make economic decisions.

The information disclosed according to full IFRS standards is sometimes too superfluous for users of financial statements of small and medium–sized enterprises (SMEs) and very often the cost of its full consistence exceeds its contributions. Another problem, which is specific for the Czech Republic is that the national legislation does not allow it to specify the income tax base from the statements prepared according to IFRS standards and thus the companies have to prepare the statements according to Czech legislation in parallel, which represents a tremendous administrative burden.

The aim of the article is to analyse problem areas in reporting according to IFRS at SMEs in the Czech Republic and to compare their results with the accounting practice in companies which report according to IFRS.

Keywords

IFRS, SMEs, Czech accounting standards (CAS), financial statements, performance measurement

Abstrakt

Nové informační technologie, rozvoj mezinárodní ekonomické spolupráce a propojenost trhu vyvolávají potřebu nadnárodních, celosvětově platných a uznávaných účetních

norem, které umožní věrně a v rozsahu odpovídajícím soudobému poznání, ale především ve srovnatelné podobě, vypovídat o procesech probíhajících na úrovni podniku.

Těmto požadavkům odpovídají např. Mezinárodní standardy účetního výkaznictví (IFRS), využívané především v Evropě.

Jejich základním cílem je rozvoj jednotného celku vysoce kvalitních a srozumitelných globálních účetních standardů. Z účetních závěrek sestavených dle těchto standardů budou vyplývat vysoce kvalitní, transparentní a srovnatelné informace, které napomohou uživatelům těchto informací provést ekonomická rozhodnutí.

Zveřejňované informace podle plných IFRS jsou pro malé a střední podniky (MSP) zbytečné a mnohdy náklady na plnou konzistenci přesahují jejich přínosy. Dalším problémem specifickým pro Českou republiku je, že národní legislativa neumožňuje z výkazů sestavených podle IFRS stanovit zaklad daně z příjmů, a tak podniky musí sestavovat výkazy paralelně podle dvou různých standardů, což představuje velkou administrativní zátěž.

Cílem článku je analýza problémových okruhů při vykazováni dle IFRS u MSP v České republice a porovnání jejich výsledků s účetní praxí v podnicích, které už podle IFRS vykazují.

Klíčová slova
IFRS, MSP, české účetní standardy (ČÚS), účetní závěrka, měření výkonnosti

Introduction

Small and medium-sized enterprises (SMEs) play an important part in EU economy. However, their mutual activities are limited by various difficulties. One of the biggest problems is the fact that each of the 27 countries has a different accounting system. From this point of view it is useful to harmonize the systems. The best tool for this harmonization is IFRS for SMEs as a set of rules which can be used for making financial reports of the company. The advantage of such standards should be building them on IFRS principles however they will not be as complicated as full IFRS financial statements. That is very important for SMEs as they do not have large capital so they need to use all financial, informational and personal sources effectively.

So far SMEs in the Czech Republic do not use full IFRS standards very much. Except the above mentioned demandingness, IFRS differ considerably from the Czech national accounting system. Moreover, the Czech tax legislation does not accept business results calculated according to IFRS as a basis for income tax calculation and thus reporting according to IFRS is something extra to Czech financial statements.

On the other hand, more and more SMEs are starting to report according to IFRS because they are more and more linked to the surrounding world due to capital connections, customer/supplier relations or external financing by banks. Issuing IFRS for SMEs would simplify reporting of these enterprises, using a common standard.

This article deals with main problems the Czech SMEs have when reporting according to full IFRS standards. Theoretically set topics are compared with the results of our hitherto research in chosen enterprises.

1 Definition of small and medium-sized enterprises

Small and medium-sized enterprises are regarded as the moving economic power not only in the Czech Republic but in the whole EU.

To support and develop these businesses of these enterprises, EU has introduced a new definition of small and medium-sized enterprises valid from 1. January 2005. SMEs are defined by three main criteria: the number of employees, the annual turnover in millions of euros and the value of assets in millions of euros (Table 1).

Table 1: EU Definition of SMEs

Size	Number of Employees	Turnover in EUR	Balance Sum EUR
Medium enterprise	50 – 249	Max 50 mil	Max 43 mil
Small enterprise	10 – 49	2 mil – 10 mil	2 mil – 10 mil
Micro-enterprise (small entrepreneur)	Below 10	Up to 2 mil	Up to 2 mil

Source: http://www.czechinvest.org/definice-msp

2 Reasons for harmonization of accounting

Informative ability of financial statements is a fundamental condition for communication among accounting information users. Accounting is a subject of continuous development both on European and worldwide scale, it has to react to the development of national as well as multinational economic environment and it has to react to stimuli based especially on new world tendencies in theoretical knowledge and practical experience from realization of different opinions.

The growth of multinational corporations, new information technologies and development of the international capital market call for the need of multinational, worldwide valid and respected accounting standards which will enable truly and within the range of current subject field, but mostly comparably inform about enterprise processes. International Financial Reporting Standards (IFRS)[1] correspond to these requirements. The International Financial Reporting Standards are a summary of the best accounting procedures and experience of the accounting profession and of users´ requirements upon the range of publicly notified information. Their purpose is to increase comparability of reporting on financial

1 *The original name was IAS (International Accounting Standards). To stress the fact that the case is standardization of financial reporting and not standardization of accounting, the name of the whole IAS set was changed into IFRS. Individual standards (IAS 1 through IAS 41) remain in force but new and updated standards are published under IFRS name.*

effectiveness and financial position of different companies, operating under different national conditions. Comparability of data included in reports e.g. balance sheet (statement of financial position), income statement (statement of comprehensive income), statement of changes in equity and statement of cash flow are of high importance for investors, but also for managers and financial management of companies. Financial reporting provides input information for a financial analysis. For a financial management of key importance is to guarantee comparability of data included in financial statements.

However, reaching full comparability is often very difficult. Comparability could be judged in the scope of indices time line within consecutive accounting periods in one company, where generally accepted consistence principle is followed. Comparing final statements among various companies in one country is only possible when centrally regulated, however it does not work on the international scale.

3 IFRS for small and medium-sized enterprises

As full IFRS were designed to meet the needs of investors in companies operating on public capital markets, they include a range of suggestions and solutions suitable for public businesses. Non-publicly Accountable Entities, especially SMEs do not need identical information or they lack financial sources to adapt to the requirement upon a big volume of reported data. Many of these businesses claim that the use of full IFRS is too demanding.

The aim of IASB board when formulating IFRS for Non-publicly Accountable Entities was to satisfy users' needs in terms of balance between the expenses and benefits. The main aims of these standards for SMEs are:

- to define a unified set of high-quality, understandable and enforceable accounting standards,
- to drop financial burden,
- to allow easy transfer to full IRSF for those SMEs which will decide to move to them or those which will acquire a duty to make accounting information public,
- to concentrate on satisfying the needs of users of financial statements of small and medium sized enterprises.

ISAB board changed the name of the standards to IFRS for Private Entities in May 2008. In January 2009 the name was changed again to IFRS for Non-publicly Accountable Entities. The Czech Republic has adopted the classification of private enterprises elaborated and recommended by the European Commission, but at the moment only for the purposes of supporting small enterprises. The definition of private enterprises (PE) has not been included in national accounting legislation yet.

On 9 July 2009, the IASB issued Final IFRS for SMEs, effective immediately. This is the first set of international accounting requirements developed specifically for small and medium-sized entities (SMEs). It has been prepared on IFRS foundations but is a stand-alone product that is separate from the full set of International Financial Reporting Standards (IFRSs). The IFRS for SMEs has simplifications that reflect the needs of users of SMEs' financial statements and cost-benefit considerations. Compared with full IFRSs, it is less complex in a number of ways:

- Topics not relevant to SMEs are omitted.
- Where full IFRSs allow accounting policy choices, the IFRS for SMEs allows only the easier option.
- Many of the principles for recognising and measuring assets, liabilities, income and expenses in full IFRSs are simplified.
- Significantly fewer disclosures are required.
- And the standard has been written in clear, easily translatable language.

To further reduce the reporting burden for SMEs, revisions to the IFRS will be limited to once every three years. It is suitable for all entities except those whose securities are publicly traded and financial institutions such as banks and insurance companies. The 230-page standard is a result of a five-year development process with extensive consultation of SMEs worldwide. Accompanying the standard is implementation guidance consisting of illustrative financial statements and a presentation and disclosure checklist. It is necessary to decrease the cost and administration during the process of IFRS implementation and to provide for enough implementation booklets.

The standard has 230 pages (it is ten times less than full IFRS) and it is adapted for the needs and abilities of smaller enterprises. Parts of the standard are the explanatory report and implementation manual which includes an example of financial reports of SMEs, presentations of financial statements and a list of requirements for disclosing. Many principles from full IFRS concerning recognition and appreciation of assets, liabilities, revenues and expenses were simplified, some items which did not relate to SMEs were left out and the number of requirements for disclosing was considerably simplified. This standard will further be simplified and will be revised every three years. The standard is based on individual spheres which are further divided into sections.

The International Financial Reporting Standards for SMEs response to strong international requirements of both developed and emerging economies to introduce accounting standards for small and medium-sized enterprises which would be much simpler than full IFRS. IASB supposes that the standard will:

- provide improved comparability for users of financial statements,
- enhance the overall confidence in financial statements of SMEs,
- reduce significant expenses connected with maintaining standards on a national basis,
- enable easy transition to full IFRS at growing businesses that are preparing to enter public capital markets.

The standard contains five types of simplifications of full IFRS:

- some topics in IFRSs are omitted because they are not relevant for SMEs,
- simplification of some accounting policy options used in full IFRS, which are unnecessarily complicated for SMEs; there is no choice in cases where IFRS enable it,

- simplification of measurement and reporting requirements,
- simplification of requirements upon accounting information disclosure,
- simplification of the process of displaying future changes.

Compared to full IFRS, the standard does not address the following areas because they are not relevant for SMEs:

- earnings per share,
- interim financial reporting,
- segment reporting,
- insurance (subjects issuing contracts of insurance will not be allowed to use this standard),
- accounting of assets held for sale.

If SMEs want to report these spheres, they can create their own methodology and disclosure it.

As it was already mentioned above, the SMEs standard does not provide any options in areas where full IFRS enable them. They are:

- financial instruments options, including available-for-sale, held–to maturity and fair value options,
- revaluation model for property, plant and equipment, and for intangible assets,
- proportionate consolidation for investments in joint-ventures,
- property investment valuation using historical costs not accounting policy based on cost revaluation models and fair value models,
- various options for government grants.

4 Harmonization in the Czech Republic

The biggest obstacle in comparability of financial statements among individual European Union countries is the fact that the directives do not have a character of an international law. They are realized through the mediation of the corresponding national legal regulations of a member country. Thus specifics of individual member countries reflect in financial accounting, following from their different economic as well legal environments and historical tradition. Enterprises from national economics enter international environment, however they are not yet completely ready for the aligning processes. This is especially the case of SMEs reporting.

Comparing accounting procedures and reporting of some items according to the Czech Accounting Standards and according to IFRS results in differences in the accounting data reporting. According to one reporting frame a company can reach a profit, while according to another it can show a loss. Of big difference can also be total balance sums, asset value, and value of other items of property or liabilities. Financial analyses indices and comprehensive conclusions about performance could differ considerably.

The efforts of the CR crowned by the Czech Republic joining the EU define clearly the choice of the form of international harmonization of accounting, including tax harmonization and coordination. In the past the application of IAS/IFRS was optional more or less, possibly evoked by respecting requirements of foreign companies to include accounting information in consolidated financial statements. Since 2005 the IFRS application has been compulsory for companies operating on EU regulated markets. According to the Regulation No. 1606/2002 of the European Parliament and the Council of 19 July 2002 on the Application of International Accounting Standards, the accounting entities that are trading companies and that are issuers of securities registered at a regulated securities market in the European Union member countries, have to apply the International Accounting Standards, adapted by the European Union law, for accounting and drawing a financial statement.

The financial statement according to IFRS differs from the Czech financial statement first of all in its purpose. Its key aim is to provide information for economic decision making of shareholders and investors. The statements also differ in requirements upon selection and range of information disclosed. The statements preparation in compliance with IAS/IFRS cannot do without professional estimates and references, respecting fundamental accounting principles. It requires consistent recording of transactions according to their economic nature and not in compliance with the rule of law, if different.

Introduction of IFRS is a turning point in financial reporting. It calls for collection and classification of financial data in several dimensions, e.g. not only according to companies´ individual products and services but also in geographical classification, often from inhomogeneous and incomparable data. Information systems and accounting policies have to be adapted not only for big corporations but also for SMEs.

The impact of international accounting upon Czech companies will be stronger and stronger and timely solution of the problems will offer a certain competitive advantage to the companies in future. Companies that will not be able to provide correct and comparable financial information on IFRS basis will be losing the trust of capital and financial markets but also of business partners. On the contrary, high quality financial reporting makes approach to sources of finance easier in both forms of financing at the capital markets and from loans which has a majority in SMEs.

5 Difficulties of SMEs in the Czech Republic during the transition process to IFRS

A key problem of accounting based on IFRS is the tax basis which is obtained from the accounting profit in the Czech Republic. For this reason, the accounting entities which account and report according to IFRS by law have, for the purposes of calculation of the profit tax payable, to transform the business result to such a result which they would have if they accounted and reported according to the Czech regulations.

If SMEs were forced to account and report according to IFRS, even if simplified, this would mean adopting new accounting legislation. Then the enterprises would have to train their accountants and prepare them for a new approach to accounting, or teach them new approaches to accounting thinking. All this would mean – at least in the beginning – a huge administrative as well as financial burden for these enterprises.

Next to this, the majority of SMEs are interested very little in "a trustable and truthful view" provided by accounting. The enterprises want the financial accounting to provide them mainly with data necessary for specifying the profit tax basis, they use accounting information for the purpose of management very rarely. This fact is also documented by the following research.[2]

6 Scope and aims of the research done at Tomas Bata University in Zlin, Faculty of Management and Economics

At Tomas Bata University in Zlin, Faculty of Management and Economics research is done as a part of a project financed by the Czech Science Foundation, a research grant ' IAS/IFRS Usage in Small and Medium Enterprises and its Influence on Performance Measurement'. Registration number: GACR 402/09/0225.

The outlet of the grant should be theoretical knowledge of possibilities and problems of IAS/IFRS implementation in small and medium enterprises as a basis for creation of accounting standards and other linking regulations and creation of methodological recommendations of how to keep accounts and how to make accounting statements according to IAS/IFRS.

Now we identify of problem fields of using IFRS in SMEs. The identification is based on theoretical judging of differences, possibly discrepancies between the accounting procedures used so far and recommendations in IFRS and on results of questionnaire research applied within chosen SMEs. The aim is to obtain information about possible usage of IFRS from entrepreneur sphere and about difficulties connected with this.

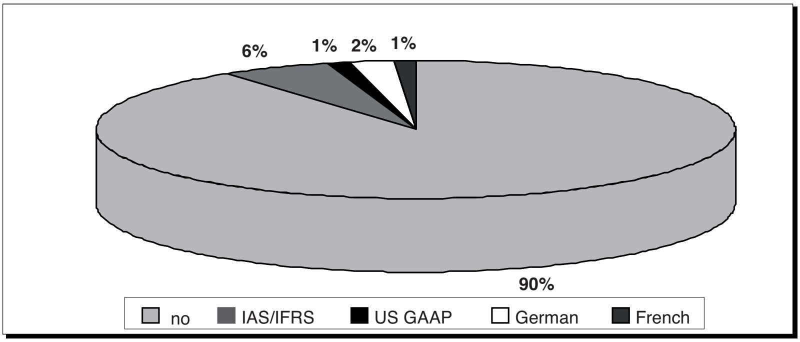
Results

Eightg-nine businesses took part in our research, out of which 83 were from the Czech Republic. We involved businesses with less than 250 employees in the SMEs category. Production companies represented 37%, trade businesses 28% service-providing companies 35%.

The basic question of the questionnaire aimed at the problems of reporting, i.e. if the company reports also according to any other system than Czech. Only 10% of the companies asked (9 companies) answered positively. Out of this 5 companies report according to IAS/IFRS, 2 companies according to the German system, 1 company according to US GAAP and 1 company according to the French system (Figure 1):

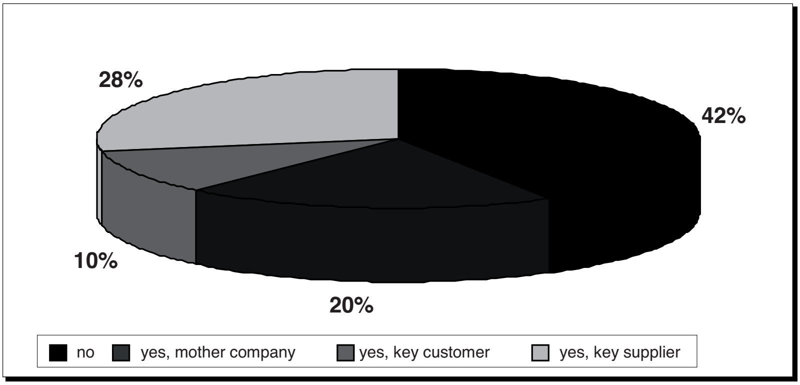
2 *MÜLLEROVÁ; PASEKOVÁ; HÝBLOVÁ (2010)*

Figure 1: In which other reporting system does your Company report?



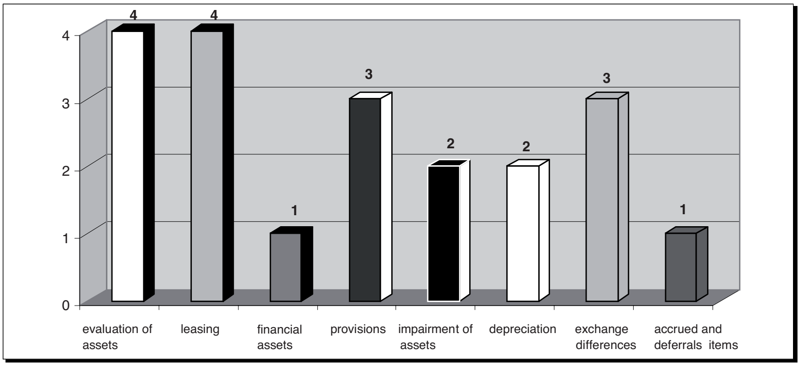
In connection with this we wanted to know if the company is somehow connected to a foreign subject. Fig. 2 shows that nearly 60% of companies have this type of connection. 28% of companies have an important foreign supplier, 20% of companies are linked to foreign mother company and 10% of companies have an important foreign customer (Figure 2):

Figure 2: Connection of companies with foreign subjects



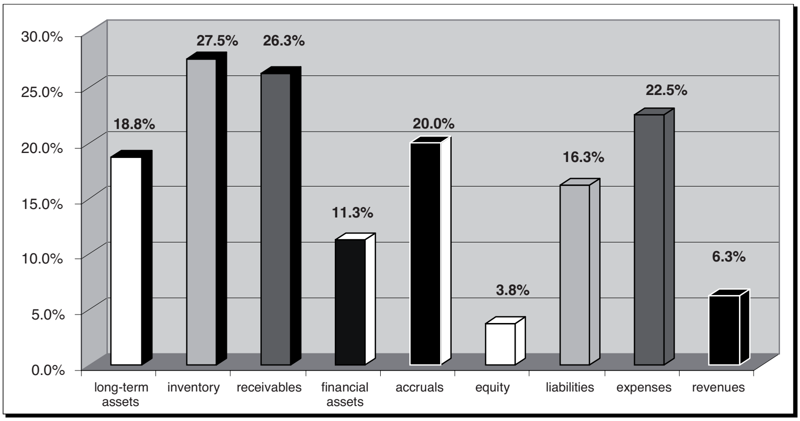
The following question concentrated on specific areas of reporting where the company makes alterations during transition from the national accounting system to another accounting system. Out of nine companies which reported also according to another system than Czech, four companies alter assessment of assets and leasing, three companies alter provisions and exchange rates and two companies alter corrections and depreciation. Alterations of financial assets and time differentiation were mentioned only once each of them (Figure 3):

Figure 3: What adjustments are needed to change your local statutory accounts to other reporting system you are using?



To find out if companies are interested to use IAS/IFRS in the future there was a question about an interest of the responsible employees to undergo trainings or courses on IAS/IFRS. More than 76% of companies without IAS/IFRS experience said they were not interested in such trainings. These companies were then asked to name problematic accounting areas. 28% responses mentioned inventories as problematic areas, 26% receivables, 23% costs; accruals were mentioned in 20% of responses. The least complicated parts were equity and revenues (Figure 4):

Figure 4: Which are the problematic accounting areas in your company, in your opinion?



Discussion

According to our research we can state that SMEs are not interested in international accounting standards. It is probably due to disadvantageous proportion between the cost invested and the revenues obtained.

Companies which report according to IAS/IFRS standards find the biggest problems while reporting long-term assets, leasing, provisions and exchange rate differences.

7 Reporting according to IFRS and its influence on the assessment of the financial performance of the SMEs

Reporting of assets and liabilities according to IFRS in compare to the Czech accounting standard brings substantial changes in the classification, content and valuation that affect almost the all items of the financial statements in varying degrees and in different direction. As the experiences of the companies which report according to IFRS show, provide these Financial Statements a different set of data and totally different picture of financial position and performance of the company. It affects the other areas of use of these data, including assessing of the financial situation and the financial performance based on the indicators of the financial analysis.

Assessment of the financial situation and performance based on data of the financial statement are used not only by the companies themselves for financial planning and decision, but also by the financial institutions in the process of lending companies, by business partners who assess perspectives and risks of collaboration, by investors who assess performance and risks of their investments. On the data of the financial statement is based also the bankruptcy and other models, that are used by the financial institution for risk assessment of clients and consequently for managing the capital relevancy. The results of financial analysis are also used by the regional authorities and authorities of the EU for valuation of credibility of applicants for EU funds, evaluation of projects for support from EU funds etc.

Financial analysis provides the data for assessment of the main aspects of the financial stability: i.e. profitability, liquidity, financial independence (debt), to asses and predict the development of the financial situation. It allows to express these aspects by the quantitative data, to compare them with the recommended values, to monitor interaction between them, to compare them with the same in the other firms, and identify problem areas and to set targets and measures in order to improve the situation.

Financial analysis and financial indicators are based on the data of financial statements. If the financial statements according to IFRS provide a different set of data and totally different picture of financial situation, it can be regarded that the totally assessment of the financial performance will change. That may lead to the other assessment and the other decisions. At what degree and what direction will the IFRS change this assessment, it is the question, that must be considered in connection with the process of implementation of IFRS in the range of the SMEs.

On these problems concentrates the second part of the research supported by the GACR, which is realised by the cooperating institution, Department of management and business economics, University of Finance and Administration, Prague.

Research methods

In this part of the project was made an empirical research aimed to find out if the reporting according IFRS in the terms of concrete companies lead to the different assessment of the financial situation and performance. The research was based on the supposition that IAS/IFRS will cause the change in the assessment of the firms and its financial situation and performance. At the second level we supposed, that the results of the assesment will be worse.

To achieve the goals we used the method comparison of the two set of the financial indicators, which one of them was based on the data of the financial statement prepared according to IFRS, the other one of them was based on the data of the financial statement according to Czech Accounting Standards. The two sets of the financial statements are compilated in one and the same company. Since 2005 the IFRS application has been compulsory for companies operating on EU regulated markets. Besides it they must the same financial statements compile according to the Czech Accounting standard for the tax purposes. It creates a unique situation for the research. We also obtained the financial statement of the other companies, that are not operating on the regulated capital markets, but must compile two sets of financial statements – one according to IFRS for mother company abroad and one for the tax purposes according to Czech Accounting Standards. At the first stage we had six sets of statements, at the end we have at our disposal nine sets of financial statement.

For the assessment of the financial situation have been selected only some of the indicators of financial analysis. The selection was based on the frequency of use in normally undertaken analysis including the basic method of its detection[3] they are listed below:

1) Profitability ratios[4]:
a) rentability of equity (ROE) = EAT / Equity
b) rentability of assets (ROA) = EBIT / Assets
c) rentability of sales (ROS) = EBIT / Sales
d) rentability of capital employment (ROCE) = EBIT / Long-term capital

2) Liquidity ratios:
a) current ratio = current assets / short-term liabilities
b) quick ratio = current assets – inventories / short-term liabilities
c) cash ratio = current assets – inventories – short-term receivables / short-term liabilities

3) Debt ratios:
debt ratio = Liabilities / Assets
equity ratio = Equity / Assets
financial laverage = Assets / Equity
debt-equity ratio = Liabilities / Equity
earnings effect of financial leverage = EBT / EBIT x Assets / Equity
Interests coverage = EBDIT / Interests
1/interests coverage = Interests / EBDIT

3 *MRKVIČKA; KOLÁŘ (2006).*

4 *EAT = earning after taxes, EBT = earning before taxes, EBIT = earning before interests and taxes, EBITD = earning before interests, depreciations and taxes.*

4) Activity indicators:

a) turnover rate: turnover rate of assets = Sales / Assets
turnover rate of inventories = Sales / Inventories
turnover rate of receivables = Sales / Receivables
turnover rate of short-term liabilities = Sales / Short-term liabilities

b) turnover time: 360 / turnover rate (assets, inventories, receivables, short-term liabilities)

The two sets of the data were also used for calculation of the Altman model value Z-score. For this purpose we could not use the variant of the model created for the Czech condition, because we could not determine the indicator of the overdue liabilities. So we use the formula for the calculation of the model, in this form:

$$\mathbf{Zo= 0{,}717^*x_1 + 0{,}847^*\, x_2 + 3{,}107^*x_3 + 0{,}420^*x_4 + 0{,}998^*x_5}$$

where x_1 = net working capital / Assets
x_2 = retained earnings / Assets
x_3 = EBIT / Assets
x_4 = Equity / Liabilities
x_5 = Sales / Assets

Interpretation:

- value Z-score values higher than 2,7 – the firm is in good condition, there is not a threat of the bankruptcy in the two further years
- values in the interval 2,7 – 1,2 – further development can not be specified more precisely („grey zone“)
- values lower than 1,2 – the firm is threatened by the serious financial problems in the next two-three years

Achievements of the research

The comparison of the two sets of the financial indicators according the two sets of financial statements, one of them according to Czech Accounting Standards and one according to the International Financial Reporting Standards, obtained from the six companies, is presented in the table No 2. There is calculated the difference between those on CAS and IFRS in the absolute value and while in percentage terms (the base is the value according CAS statements). Plus or minus expresses the direction of change in comparison with the CAS level.

In the table No 3 there is a presentation of the indicators values in all the companies in absolute and percentage terms, that allows the simple assessment the degree and the direction of the change.

In the table No 4 there are comparison of the Z-score values in the companies – the differences are listed in absolute and percentage terms.

Table 2: Comparison of selected indicators of financial analyses based on CAS and on IAS/IFRS (part 1)

	Řízení letového provozu, s.p.				Spolana, a.s.				Škoda Auto, a.s.			
Indicator	**CAS**	**IFRS**	**Diff. (absol.)**	**Diff. (%CAS)**	**CAS**	**IFRS**	**Diff. (absol.)**	**Diff. (%CAS)**	**CAS**	**IFRS**	**Diff. (absol.)**	**Diff. (%CAS)**
ROE	10.64%	10.74%	-0.10	**-0.96**	8.855%	8.357%	-0.498	**-5.62**	10.64%	7.10%	- 3.54	**- 33.00**
ROA	12.00%	12.00%	0.00	**0.00**	8.268%	7.837%	-0.431	**-5.21**	8.06%	6.24%	- 1.82	**- 22.00**
ROS	20.71%	20.71%	0.00	**0.00**	94.649%	95.521%	0.872	**0.92**	3.77%	3.54%	- 0.23	**- 6.00**
ROCE	12.98%	13.10%	-0.12	**-0.92**	8.765%	8.277%	-0.488	**-5.57**	13.05%	9.93%	- 3.12	**- 24.00**
current ratio	2.519	2.268	-0.251	**-9.96**	5.300	5.327	0.026	**0.49**	1.117	0.991	- 0.126	**- 11.30**
quick ratio	2.471	2.225	-0.246	**-9.96**	5.300	5.327	0.026	**0.49**	0.812	0.708	- 0.104	**- 12.80**
cash ratio	0.987	0.889	-0.098	**-9.96**	4.354	4.419	0.065	**1.49**	0.200	0.139	- 0.061	**- 30.50**
debt ratio	0.117	0.126	0.008	**7.16**	0.058	0.070	0.012	**21.06**	0.5428	0.4996	- 0.0432	**- 7.96**
equity ratio	0.883	0.874	-0.008	**-0.95**	0.942	0.930	-0.012	**-1.29**	0.4572	0.5004	+ 0.0432	**+ 9.45**
financial leverage	1.133	1.144	0.011	**0.96**	1.061	1.075	0.014	**1.30**	2.1870	1.9970	- 0.19	**- 8.69**
debt-equity ratio	7.535	6.964	-0.571	**-7.57**	16.377	13.354	-3.023	**-18.46**	0.8420	1.0020	+ 0.16	**+19.00**
earnings effect of financial leverage	1.133	1.144	0.011	**0.96**	1.061	1.074	0.013	**1.18**	1.8150	1.604	- 0.211	**- 11.60**
interest coverage	x	x	x	**x**	0.000	991.652	991.652	**0.00**	24.260	17.070	- 7.190	**- 29.60**
1 / interest coverage	0.000	0.000	0.000	**0.00**	0.000	0.001	0.119	**0.00**	11.67%	19.67%	- 8.000	**- 68.50**
Turnover of assets	0.579	0.579	0.000	**0.00**	0.087	0.082	-0.005	**-6.07**	2.137	1.739	- 0.398	**- 18.60**
Time of turnover (days)	621.430	621.43	0.000	**0.00**	31.000	30.000	-1.910	**-6.07**	168.000	207.000	+39.000	**+ 23.20**
Turnover of inventories	158.900	158.90	0.000	**0.00**	0.000	0.000	0.000	**0.00**	18.304	16.832	- 1.472	**- 8.00**
Time of turnover (days)	2.270	2.27	0.000	**0.00**	0.000	0.000	0.000	**0.00**	19.600	21.400	+1.800	**+ 9.20**
Turnover of receivable	5.148	5.148	0.000	**0.00**	1.627	1.702	0.076	**4.66**	11.398	7.333	- 4.065	**- 35.60**
Time of turnover (days)	69.932	69.932	0.000	**0.00**	221.000	211.000	-9.857	**-4.45**	31.600	49.100	+17.500	**+ 55.40**
T.of short-term liabilities	7.640	6.880	-0.760	**-9.96**	1.539	1.545	0.006	**0.39**	5.589	4.749	- 0.840	**- 15.00**
Time of turnover (days)	47.130	52.340	5.210	**11.06**	234.000	233.000	-0.100	**-0.39**	64.400	75.800	+11.400	**+ 17.70**

Table 2: Comparison of selected indicators of financial analyses based on CAS and on IAS/IFRS (part 2)

	Česká námořní plavba, a.s.				Léčebné lázně Jáchymov, a.s.				České vinařské závody, a.s.			
Indicator	**CAS**	**IFRS**	**Diff. (absol.)**	**Diff. (%CAS)**	**CAS**	**IFRS**	**Diff. (absol.)**	**Diff. (%CAS)**	**CAS**	**IFRS**	**Diff. (absol.)**	**Diff. (%CAS)**
ROE	8.513%	9.272%	0.759	**8.920**	5.04%	5.02%	-0.020	**-0.01**	17.57%	21.70%	4.130	**4.13**
ROA	4.834%	4.774%	-0.060	**-1.250**	5.73%	6.20%	0.470	**0.47**	17.18%	22.78%	5.600	**5.60**
ROS	3.617%	3.562%	-0.055	**-1.530**	10.52%	12.50%	1.980	**1.99**	28.14%	41.65%	13.510	**13.51**
ROCE	16.777%	16.685%	-0.092	**-0.550**	6.31%	6.32%	0.010	**0.01**	20.10%	26.76%	6.660	**6.66**
current ratio	0.422	0.392	-0.030	**-7.100**	0.840	0.796	-0.040	**-5.26**	5.243	5.230	-0.013	**-0.24**
quick ratio	0.256	0.241	-0.014	**-5.590**	0.731	0.690	-0.040	**-5.62**	4.213	4.205	-0.007	**-0.17**
cash ratio	0.029	0.016	-0.013	**-46.050**	0.206	0.168	-0.040	**-18.21**	1.913	0.791	-1.122	**-58.64**
debt ratio	0.745	0.766	0.022	**2.900**	0.214	0.207	-0.010	**-3.41**	0.212	0.172	-0.040	**-18.68**
equity ratio	0.255	0.234	-0.022	**-8.460**	0.789	0.864	0.070	**9.47**	0.788	0.827	0.038	**4.87**
financial leverage	3.915	4.277	0.362	**9.240**	1.267	1.158	-0.110	**-8.65**	1.268	1.209	-0.059	**-4.64**
debt-equity ratio	0.343	0.305	-0.038	**-11.040**	3.690	4.183	0.490	**13.34**	3.727	4.807	1.079	**28.96**
earnings effect of financial leverage	1.761	1.942	0.181	**10.290**	1.179	1.090	-0.090	**-7.57**	1.268	1.209	-0.059	**-4.68**
interest coverage	18.972	19.449	0.477	**2.520**	26.545	34.319	7.77	**29.29**	0.000	2937.740	2937.740	**x**
1 / interest coverage	55.020%	54.580%	-0.440	**-0.790**	6.920%	5.820%	-1.100	**-1.100**	0.000%	0.040%	0.040	**0.04**
Turnover of assets	1.337	1.340	0.003	**0.280**	0.545	0.496	-0.049	**-9.02**	0.61	0.55	-0.06	**-10.41**
Time of turnover (days)	269.760	269.000	-0.76	**-0.280**	660.282	725.771	65.488	**9.92**	589.75	658.29	68.55	**11.62**
Turnover of inventories	11.295	12.470	1.175	**10.400**	53.139	53.139	0.000	**0.00**	4.08	3.61	-0.47	**-11.43**
Time of turnover (days)	32.000	29.000	-3.003	**-9.420**	6.775	6.775	0.000	**0.00**	88.28	99.68	11.40	**12.91**
Turnover of receivable	8.279	8.316	0.037	**0.450**	10.975	10.734	-0.242	**-2.20**	1.83	1.08	-0.74	**-40.67**
Time of turnover (days)	43.000	43.000	-0.196	**-0.450**	32.801	33.540	0.739	**2.25**	197.07	332.16	135.09	**68.55**
T.of short-term liabilities	1.878	1.878	0.000	**-0.001**	5.770	5.604	-0.166	**-2.88**	4.20	3.70	-0.50	**-11.91**
Time of turnover (days)	192.000	192.000	0.002	**0.001**	62.397	64.245	1.848	**2.96**	85.71	97.29	11.58	**13.52**

Origin: financial statements and own calculations.

Table 3: Comparison of the value of selected indicators in the six companies

	ŘLP, s.p.	Spolana, a.s.	Škoda Auto, a.s.	ČNP, a.s.	Léč. Lázně Jáchymov	ČVZ, a.s.	Stroje, s.r.o.	ČSA, a.s.
Indicator	**Diff. (%CAS)**	**Diff. (%CAS)**	**Diff. (%CAS)**	**Diff. (%CAS)**	**Diff. (%CAS)**	**Diff. (%CAS)**	**Diff. (%CAS)**	**Diff. (%CAS)**
ROE	-0.96	-5.62	- 33.27	+8.92	-0.01	+4.13	0.00	5.95
ROA	0.00	-5.21	- 22.58	-1.25	+0.47	+5.60	0.00	0.73
ROS	0.00	+0.92	- 6.10	-1.53	+1.99	+13.51	4.70	-0.18
ROCE	-0.92	-5.57	- 23.90	-0.55	+0.01	+6.66	0.00	3.47
current ratio	-9.96	+0.49	- 11.28	-7.10	-5.26	-0.24	-24.69	+1.85
quick ratio	-9.96	+0.49	- 12.80	-5.59	-5.62	-0.17	-24.67	0.00
cash ratio	-9.96	+1.49	- 30.50	-46.05	-18.21	-58.64	-24.87	-9.33
debt ratio	+7.16	+21.06	- 7.96	+2.90	-3.41	-18.68	0.00	-21.59
equity ratio	-0.95	-1.29	+ 9.45	-8.46	+9.47	+4.87	0.00	+158.08
financial leverage	0.96	+1.30	- 8.69	+9.24	-8.65	-4.64	0.00	-60.49
debt-equity ratio	-7.57	-18.46	+19.00	-11.04	+13.34	+28.96	0.00	-40.96
earnings effect of financial leverage	0.96	+1.18	- 11.62	+10.29	-7.57	-4.68	--	-151.54
interest coverage	x	0.00	- 29.63	+2.52	+29.29	x	--	-78.21
1 / interest coverage	0.00	0.00	- 68.55	-0.79	-1.10	+0.04	--	+371.00
Turnover of assets	0.00	-6.07	- 18.62	+0.28	-9.02	-10.41	0.00	-51.69
Time of turnover (days)	0.00	-6.07	+23.21	-0.28	+9.92	+11.62	+0.34	+157.00
Turnover of inventories	0.00	0.00	- 8.04	+10.40	0.00	-11.43	+0.64	+0.40
Time of turnover (days)	0.00	0.00	+ 9.18	-9.42	0.00	+12.91	+7.70	-0.37
Turnover of receivable	0.00	+4.66	- 35.66	+0.45	-2.20	-40.67	--	+0.20
Time of turnover (days)	0.00	-4.45	+55.38	-0.45	+2.25	+68.55	+1.80	-1.90
T.of short-term liabilities	-9.96	+0.39	- 15.03	-0.001	-2.88	-11.91	+12.59	+9.34
Time of turnover (days)	+11.06	-0.39	+17.70%	+0.001	+2.96	+13.52	--	-10.50

Origin: financial statements and own calculations.

Table 4: Comparison of the values Z-score of the companies

Company	Value Z-score				Interpretation		
	CAS	IFRS	Diff. absol.	Diff. (% CAS)	CAS	IFRS	change +/-
Řízení letového provozu, s.p.	4.710	4.464	- 0.256	**-5.43**	no threat of the bank-ruptcy	no threat of the bank-ruptcy	–
Spolana, a.s.	1.185	1.117	- 0.068	**-5.74**	Grey zone	Grey zone	–
Škoda Auto, a.s.	2.949	2.600	- 0.349	**-11.83**	no threat of the bank-ruptcy	Grey zone	–
Česká námořní plavba, a.s.	-0.955	-0.804	+ 0.151	**+15.81**	Bankruptcy is possible	Bankruptcy is possible	+
Léčebné Lázně Jáchymov, a.s.	2.503	2.775	+0.272	**+10.87**	Grey zone	no threat of the bank-ruptcy	+
České vinařské závody, a.s.	2.221	2.450	+0.229	**+10.31**	Grey zone	Grey zone	+
Stroje, s.r.o	16.510	16.230	- 0.280	**- 1.69**	no threat of the bank-ruptcy	no threat of the bank-ruptcy	-
ČSA, a.s.	2.140	1.360	-0.780	**-0.36**	Grey zone	Bankruptcy is possible	-

Origin: financial statements and own calculations.

The comparison of the indicators can be summarized by a few conclusions:

1. The values of the indicators were affected by the Financial Statement prepared according to at all companies.

2. The sort of change (positive, negative) was different in individual indicators and individual companies, and the same situation was in the Altman's model value. The results does not allowed to conclude that the IFRS lead to both to worse assessment of the financial situation of the companies and to better ones. The values of the indicators based on IFRS changed both above and below the ones based on the CAS.

3. The greatest changes both positive and negative can be seen in the indicator Debt ratio and Equity ratio, the biggest shift was in the indicator Interests coverage and Turnover of Receivables. Both the biggest changes were in the same company.

4. The indicators which have the greatest importance, i.e. profitability of equity, profitability of assets, were affected by the IFRS too, also in positive and in negative direction, but to a lesser extent (the greater difference was negative, less 33%, the smallest one 0%).

5. The great change can be seen in the indicators of cash liquidity, turnover of short-terms liabilities, interests coverage.

It can be concluded that the comparison of two sets of selected indicators of financial analysis based on the Financial Statements compiled according the two systems of Accounting Standards confirmed the assumption that IFRS change the assessment of the financial situation of companies. A partial supposition that IFRS change the assessment in negative direction was not confirmed.

Further knowledge gained at this stage of research, which cannot be generalize in the wider scope due to the small sample of companies surveyed, is:

a) the changes are not significant in the total assessment of the financial situation,
b) the changes are both in positive and in negative direction,
c) the most extreme changes were noticed in the indicators based on the data of assets, capital structure, sales, i.e. on these items, in which the approach to the reporting the item is significant different from the Czech accounting standards.

Conclusions

Special standards would require small and medium-sized enterprises to change their opinion on high-quality accounting in general, where instead of stressing correct accounting procedures and methods the emphasis is placed on final statements. They would have to duly compile cash flow statements, get used to somewhat various kinds of evaluation bases and broader range of supplementary and explanatory information in the appendix. A stress upon the final product of accounting, statements, requires understanding the consequences and relationships among transactions and their reflection in accounting because no set rules will be available any more.[5]

The reason for making a financial statement according to one of the forms of accounting harmonization is above all cooperation with foreign partners and investors and also exclusively for their comparison with foreign competition.

Compilation of the financial statements according to IFRS will change the assessment of financial stability and financial performance, both in positive and in negative direction.

Objective of this research phase was to obtain information regarding to the experiences, approaches of the small and medium-sized enterprises to the process of harmonization of accounting and the first view on its possible influence on the assessment of financial situation and performance of these subjects. And these objectives were achieved.

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