Shift to IFRS – what would this mean for Czech companies

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***Abstract*—**Usage of IFRS financial statements in the Czech Republic is very rare. This is due to the fact that only listed entities are required to prepare its consolidated financial statements in line with IFRS. If other entities want to prepare their financial statements under IFRS they have to prepare them in addition to financial statements under CZ GAAP which are mandatory for statutory purposes. Also the opportunities that IFRS can bring to Czech companies are not seen by them. In this paper we discuss what the shift to IFRS mean for Czech companies and what is the impact of possible adoption or convergence plans on Czech companies.

***Keywords*—**adoption, harmonization, IFRS, the Czech Republic.

I. Introduction

SHIFT to International Financial Reporting Standards (IFRS) is more and more discussed over the EU and other countries as IFRS are a summary of the best accounting procedures and experience of the accounting profession and users´ requirements upon the range of publicly notified information. Their purpose is to increase comparability of reporting on financial effectiveness and financial position of different companies, acting in different national conditions [7].

In the Czech Republic only listed entities are required to prepare consolidated financial statements according to IFRS. For statutory fillings the preparation of financial statements according to IFRS is not permitted and companies who prepare financial statements according to IFRS prepare them voluntarily in addition to the financial statements under CZ GAAP.

Two research projects that focus on voluntary adoption of IFRS in Czech companies were performed at the Faculty of Management and Economy, Tomas Bata University in Zlin, Czech Republic. First research with the sample of 177 Czech companies was held in 2007, The second research with the sample of 89 Czech companies was held in 2009 and is part of an ongoing GA CR project. Usage of IFRS was stated by 2% of companies in 2007 and 6% of companies in 2009 [6,9].

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See Fig. 1 for the results of research held in 2009. In Fig. 1 the answer on the question “In which other reporting system does the company report besides CZ GAAP” 90% of companies stated no other system, 6 % IFRS, other systems stated were US GAAP, German and French GAAP.

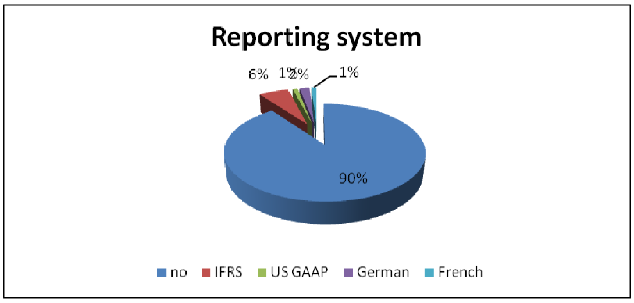

Fig. 1 In which other reporting systems does your company report?

The usage of IFRS has slightly increased in the Czech Republic, mainly due to the fact, that Czech companies are more and more important parts of foreign groups and their owners require them to report its financial statements according to group accounting rules based on IFRS. IFRS financial statements are also more frequently required during mergers and acquisitions. On the other hand most of the Czech Companies do not see the opportunities that IFRS could bring them and if the opportunities are seen, the fact that financial statements prepared according to IFRS have to be prepared besides Czech financial statements discourages the companies to use IFRS.

The local standard setting body has not announced any adoption or convergence plans even though the tendencies to increase harmonization are all over the European Union and would be welcomed by Czech professional accounting bodies [8].

In this paper the challenges and opportunities represented by shift to IFRS in the Czech Republic are discussed. First the opportunities that reporting under IFRS can bring to Czech companies are stated then the challenges that companies reporting under IFRS currently face are summarized. The opportunities and challenges stated are underlined by the results of research performed as a part of an ongoing GA CR project. At the end the possible adoption or convergence plans and their impact on the Czech companies are discussed.

II. OPPORTUNITIES THAT IFRS BRING

Generally financial statements prepared in line with IFRS are considered to give better information to the users of financial statements that financial statements prepared under CZ GAAP. Two main reasons that are being stated are better understand ability of financial statements and better comparability of financial statements.

A. Better understand ability of financial statements

IFRS is widely used reporting system with a multinational promotion done by IASC Foundation among others. On the other hand CZ GAAP is a national accounting system used only in the Czech Republic. For users of financial statements outside the Czech Republic, it is very hard to understand financial statements prepared under CZ GAAP. Not only the language barrier is a problem but also the structure of the financial statements, system of the accounting legislation and some accounting methods, which significantly differ from widely used reporting systems like IFRS.

The most significant problem of the financial statements and items shown is the complete inconsistency of measurement bases and the application of the historic (acquisition) cost, the fair value and the present value [13].

B. Better comparability of financial statements

Due to the differences between IFRS and CZ GAAP, financial statements prepared in line with CZ GAAP cannot be reasonably compared with financial statements based on other systems without detailed knowledge of Czech accounting legislation. CZ GAAP is also more linked to tax and other legislation (legal form) whether IFRS is more focused on the substance of the transactions.

Because of these two facts application of IFRS bring to Czech companies following opportunities – the Companies have more accurate information about financial position of the company, they have increased possibilities of financing and finally they can have better relationship with their stakeholders.

C. More accurate information about financial position of the company

As it was stated above, CZ GAAP is more linked to the tax and other legislation (form prevails), whereas IFRS is more linked to the substance of the transaction.

One common example of this difference (legal form x substance of the transaction) is accounting about financial lease. In the financial statements prepared according to CZ GAAP only the actual lease payment is booked, on the contrary IFRS considers the risks and rewards of the transaction and expects that the leasee will account about the leased asset which will be depreciated over the useful life, about the liability which will be decreased with the lease payments over the duration of the leasing and about the financial cost related to the financial lease agreement. As a part of the ongoing GA CR project we have performed trial conversions of financial statements of Czech companies prepared under CZ GAAP into financial statements prepared in line with IFRS and in 78% of these companies financial leasing was a case of adjustment [9].

Other example of substance over form and the Czech interconnection of tax and accounting legislation is booking of low value assets. In the CZ GAAP these can be booked into operating expenses in the year they were purchased. In IFRS if the asset meets the definition of an asset, it has to be recognized in assets and depreciated over its useful life. Also this difference was present in our trial conversions when the adjustment was needed by 89% of the companies in the project [9].

D. Increased possibilities of financing

The main user of the financial information given by listed entities is represented by the group of the present and potential investors and the main user of the financial information given by the unlisted entities is the group of creditors (bankers) [10],[11].

When the company is able to prepare IFRS financial statements which are understandable to foreign investors and foreign banks, it has more possibilities to get finance if needed. Also some companies prefer to submit IFRS financial statements because their financial position and profit or loss are more accurate than financial statements under CZ GAAP. This is mainly the case of building companies who have long-term project and who prefer to account about them using IAS 11. Financial statements in line with IFRS are also required when companies applies for EU grants or EU contracts.

E. Better relationship with company stakeholders

Mainly foreign stakeholders prefer if the company can provide them with IFRS financial statements they can understand. This is welcomed not only by company shareholders, but also by banks, customers or suppliers. Usually companies with foreign owners are used to prepare reporting packages and have some knowledge of IFRS at the moment. Other companies with Czech ownership are usually less informed about IFRS and if they are required to show financial statements under IFRS they are not capable to prepare them.

Fig. 2 states the connection of companies with foreign subjects and per our research in 2009 [9] it can be seen that 58% of companies had some connection with foreign subjects.

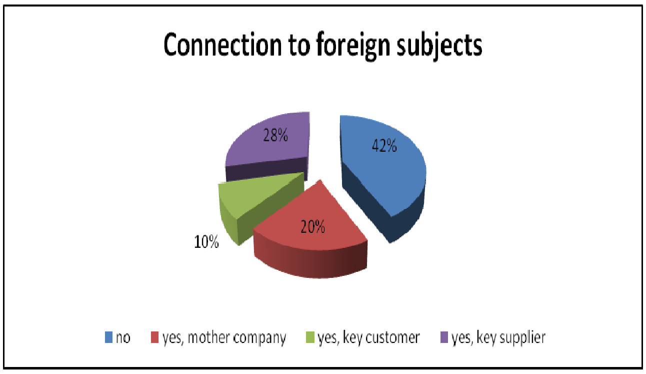

Fig. 2 Connection of companies to foreign subjects.

III. Challenges that Czech companies reporting under IFRS currently face

Challenges that Czech companies reporting under IFRS currently face are mainly differences between IFRS and CZ GAAP, Czech tax legislation and cost related to reporting under IFRS.

A. *Differences between IFRS and CZ GAAP*

Contrary to IFRS, CZ GAAP is a national, rule-based accounting system, which is subject to requirements of EU regulations and resulted obligations for the Czech Republic, e.g. to implement those regulations into the CZ GAAP. The Act on Accounting, which is the main cornerstone of the CZ GAAP in its wider sense, is the generally valid legal rule with the country-wide validity, encompassing accounting methods and financial reporting for all the accounting entities located in the country, from the smallest to the biggest (including global ones), with significantly differing activities and purposes. Its form and content are given not only by requirements of European legislation but also by the Czech legislative rules and requirements for full harmonization – in subject and terminology – with other rules of the CZ GAAP. Due to its validity even for very small entities (sole traders, non-for-profit entities) for which wide theoretical accounting and related knowledge cannot be considered, it is necessary for the text of the Act on Accounting to be clear and unambiguous as much as possible.

Due to the different priorities and principles, on which both of the systems are based, there is a range of conceptual as well as specific differences. Factors influencing the current differences are among others [4]:

- CZ GAAP is based on rules but IFRS rather on principles.
- The Czech tax base is still based on Czech accounting legislation. Consequently, a lot of the assumptions the management makes during the preparation of the financial statements is made with the potential tax consequences of that accounting treatment. This could and often results in adoption of the tax-driven point of view in accounting rather than in a real consideration what is the true and fair view of the transaction in its substance.
- CZ GAAP is based on the premise that the standalone financial statements are the primary financial statements. The view of IFRS as general accounting system aimed mainly to listed companies is naturally different and it is based on the assumption that the consolidated financial statements are the primary source of information about the economic entity/group whilst the stand-alone financial statement of either the parent or the subsidiary may only be the appended information if necessary.
- CZ GAAP, again due to its nature, does not have a thorough conceptual framework that would describe the following:
  - the individual elements of the financial statement and their definition,
  - the conceptual discussion about the fundamental accounting concepts and methods on which the financial statements should be prepared,
  - assumptions behind the quality of neither information that the financial statements should provide nor a hierarchy referring to other legislations or accounting literature in case of non-existence of relevant rules.

First-time adoption of accounting framework - IFRS requires full retrospective application of all standards effective as at the reporting date for an entity's first IFRS financial statements, with some optional exemptions and limited mandatory exceptions. Entities transiting from IFRS to the CZ GAAP (e.g. as a result of delisting) need to develop their own approach – no guidance is available in CZ GAAP.

Historical cost -IFRS uses historical cost, but intangible assets, property, plant and equipment and investment property may be revalued. Derivatives, selected biological assets and most securities must be revalued. CZ GAAP uses historical cost, except for specific asset components (e.g. derivatives) that are measured at fair value. However, initial recognition of all financial instruments is always at cost. Fair value measurement is also applied to some company transformations.

At present, the principle of measurement based on the historical cost is fading out as it is gradually being replaced by the IFRS trend of reporting fair values, which are, however, difficult to measure in less transparent markets. At the same time, the reporting based on the fair value includes the hidden danger of future volatility of such values and the consequent impact of the changes on financial statements. The performed empirical analysis on aspects concerning reporting for financial instruments documented the existence of a high similarity degree among IFRS and Czech Regulation. It is clear that countries like Czech Republic are far from making themselves herd at international level just by considering the degree of development of their national capital market. Still we have European organism representing them and trying to keep feet with international developments. [13]

Reporting currency - IFRS requires the measurement of profit using the functional currency; however, entities may present financial statements in a different currency. In CZ GAAP reporting only in the Czech currency is permitted.

Statement of financial position - IFRS doesn't prescribe a particular format; an entity uses a liquidity presentation of assets and liabilities instead of a current/noncurrent presentation. The liquidity presentation can be used only if it provides more relevant and reliable information. Certain items must be presented in the statement of financial position. A standard format (structure) is prescribed in CZ GAAP. Only a more detailed analysis or aggregation in specified cases is permitted. The consolidated balance sheet format is more aggregated and less prescriptive.

Income statement format - IFRS doesn't prescribe a standard format, although expenditure must be presented in one of two formats (analysis by function or by nature). Certain items must be presented in the income statement. In CZ GAAP is prescribed a standard format, expenditure must be presented in one of two formats (analysis by function or by nature). Same adjustments as in the case of the statement of financial position are permitted. The consolidated income statement format is more aggregated and less prescriptive.

Statement of comprehensive income - In IFRS is required that all comprehensive income items (i.e. all non-owner changes in net assets) are presented in one statement of comprehensive income or in two primary statements (a separate income statement and a statement of comprehensive income). CZ GAAP doesn't require statement of comprehensive income; the information about comprehensive income can be found within the statement of changes in equity which is however not mandatory for all entities.

Statement of changes in equity - Changes in equity of an entity during a period arising from transactions with owners in their capacity as owners are presented according to IFRS in the statement of changes in equity. Components of comprehensive income are not permitted to be presented in the statement of changes in equity. The statement must be presented as a primary statement. In CZ GAAP components of comprehensive income are presented in this statement.

Statement of cash flow - IFRS use direct or indirect method. Cash flow includes cash and cash equivalents with short-term maturities (less than 3 months). CZ GAAP use direct or indirect method as well. Entities may disclose the cash flows statement in the notes instead of a primary financial statement. The statement of cash flow is required only for some entities (audited entities).

Extraordinary items – Extraordinary items are prohibited in IFRS. In case of changes in accounting policies IFRS restate comparatives and prior-year opening retained earnings, unless specifically exempted by transitional provisions of a new standard. If the correction of material error occurred before the earliest prior period presented, the restated opening statement of financial position for the earliest period presented is included in the primary financial statement. In CZ GAAP are included unusual operations with regard to the normal activities of an entity and cases of random events, changes in accounting methodology and corrections of material prior-period errors. Only entrepreneurs are required to correct prior-period errors through extraordinary items in the current period. The first year of accounting for the deferred tax is an exception. The deferred tax is recorded against equity.

Revenue recognition - IFRS recognize revenue when risks and rewards have been transferred and the revenue can be measured reliably. CZ GAAP has no comparable guidance for revenue recognition, contractual arrangements drive revenue recognition.

Construction contracts - In IFRS are revenues and profit on long-term contracts accounted for by using the percentage of completion method. When the outcome of construction contract cannot be estimated reliably the revenue shall be recognized only to the extent of cost. The percentage of completion method is not part of the CZ GAAP. Accounting treatment depends on the form of contractual arrangement.

Interest expense – Interest expense is recognized on an accrual basis in IFRS. Effective interest method is used to amortize all borrowing costs. In CZ GAAP contractual interest is recognized on an accrual basis. Other borrowing costs are recognized as incurred.

Intangible assets - According to IFRS intangible assets may have indefinite useful life or are amortized over the useful life. Intangible assets with indefinite useful life are tested for impairment annually. Revaluations are permitted. Research costs are expensed as they are incurred. Development costs are capitalized and amortized only if stringent recognition criteria are met. Goodwill is not amortized. In CZ GAAP intangible assets are amortized over their useful life. Revaluations and indefinite life are not permitted. Research and development costs are capitalized if the assets are held for sale. Other costs of internally-generated intangible assets held for repetitive sale are also capitalized.

Property, plant and equipment - IFRS use historical costs or revalued amounts. Frequent revaluations of entire classes of assets are required when the revaluation option is chosen. Component approach must be applied in determining depreciation for property, plant and equipment. CZ GAAP use historical cost (in rare cases replacement cost). Revaluation is permitted only upon acquisition of an entity or certain company transformations. Spare parts are inventory and not classified as property, plant and equipment. Component approach was not allowed under CZ GAAP until 1 January 2010.

Non-current assets held for sale - In IFRS non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset classified as held-for-sale is measured at the lower of its carrying amount and fair value less costs to sell. In CZ GAAP these is no guidance. Assets are presented and measured under tangible or intangible asset categories on the statement of financial position.

Discontinued operations - Assets and liabilities of discontinued operations are presented separately from other assets and liabilities on statement of financial position in IFRS. In CZ GAAP these is no guidance. However, if the impact on the financial position of the entity is material, relevant disclosures should be provided in the notes.

Leases - In IFRS leases are classified as finance leases if substantially all risks and rewards of ownership transferred to a lease [1]. Substance rather than legal form is important. In CZ GAAP legal form prevails over the commercial substance. Consequently, there is no difference in accounting for finance and operating leases. The leased assets (both finance and operating) are capitalized and depreciated by the lessor for both finance and operating leases. Revenue/expense is accrued over the lease term on a straight line basis.

Investment property - Investment property is defined by IFRS as property held by owner to earn rentals or for capital appreciation but not in the ordinary course of business [3]. It shall be measured at depreciated cost less accumulated amortization or fair value. In CZ GAAP there is no specific guidance. Investment properties are presented as property, plant and equipment.

Capitalization of borrowing costs - From 1 January 2009 borrowing costs must be capitalized in IFRS [1]. In CZ GAAP is permitted capitalization of contractual interest, not full borrowing costs. Capitalization limited to borrowings specifically received to obtain an item of fixed asset. Interest on loans for the acquisition of purchased inventory is not capitalized.

Provisions - IFRS record the provisions related to present obligations from past events if outflow of resources is probable and can be reliably estimated. Where the effect of the time value of money is material, the amount of a provision shall be the present value of the obligation. In CZ GAAP are provisions created for possible risks and expected losses. Provisions for future repairs of property, plant and equipment may be created (not permitted under IFRS). No discounting is required for measurement.

IFRS for SMEs - After the introduction of IFRS for SMEs in July 2009 some of the differences had been eliminated for companies that meet the criteria of not publicly accountable entity. For example the revaluation of property, plant and equipment, assets held for sale classification and capitalization of borrowing cost can be mentioned [2].

IFRS for SMEs may still be considered too complex for micro-entities; however many of the requirements will not be applicable for entities with a more simple business model. The extent to which IFRS for SMEs can be used for tax purposes remains an issue that requires further study [12].

B. Czech tax legislation

Czech tax legislation does not allow using profit or loss stated according to IFRS to calculate the income tax. The only profit or loss that can be used is profit or loss under CZ GAAP. That is why for statutory purposes all companies have to prepare financial statements under CZ GAAP and financial statements under IFRS are not permitted.

Companies willing to report under IFRS must therefore prepare two sets of financial statements. Also the accounting has to be primary kept in line with Czech accounting legislation and in order to prepare IFRS financial statements conversion has to be performed. Basically three types of conversion are used – conversion of financial statements, conversion of account balances, conversion of transactions.

Conversion of financial statements is the easiest type of conversion, but can be only used in entities with simple structure of financial statements where the differences between CZ GAAP and IFRS arise only from differences of financial statements.

Conversion of account balances is often used conversion as is practical and with reliable cost. Usually a bridge in MS Excel is prepared and the balances from analytical accounts are corrected based on the differences and transferred to IFRS financial statements.

In conversion of transactions each transaction is booked in Czech general ledger and in parallel in IFRS general ledger. This system is most precise but also requires significant investments, mainly into company Information System.

C. Cost related to reporting under IFRS

Due to above stated differences between CZ GAAP and IFRS and the fact that companies must primary prepare financial statements in line with CZ GAAP, reporting under IFRS brings to the companies significant additional cost.

This cost include investments into high quality employees with knowledge of IFRS, investments into Information System and cost related to changes in the processes and the administration of the company needed for reporting under IFRS.

There was a study prepared by Ernst&Young for Czech ministry of finance which discussed the Application of IAS in non-listed entities in the Czech Republic and part of the study was a research focused on preparation of Information System and IFRS knowledge of employees of selected companies. Based on this study there was a lack of IFRS professionals in the Czech companies as well as there is very limited IFRS knowledge of employees in other departments than in finance. Also the Information Systems were not prepared very well for the IFRS application [4]. The situation did not improve very much during past years.

IV. Research at Tomas Bata University

As a part of the ongoing GA CR project we have performed trial conversions of financial statements of Czech companies prepared under CZ GAAP into financial statements prepared in line with IFRS. We have performed it under full IFRS for companies not meeting the criteria of not publicly accountable entity and under IFRS for SMEs for those meeting these criteria.

In Fig. 3 it can be seen how the conversion affected EBT and total assets – increase of EBT by 78% companies and increase of total assets by 56% companies.

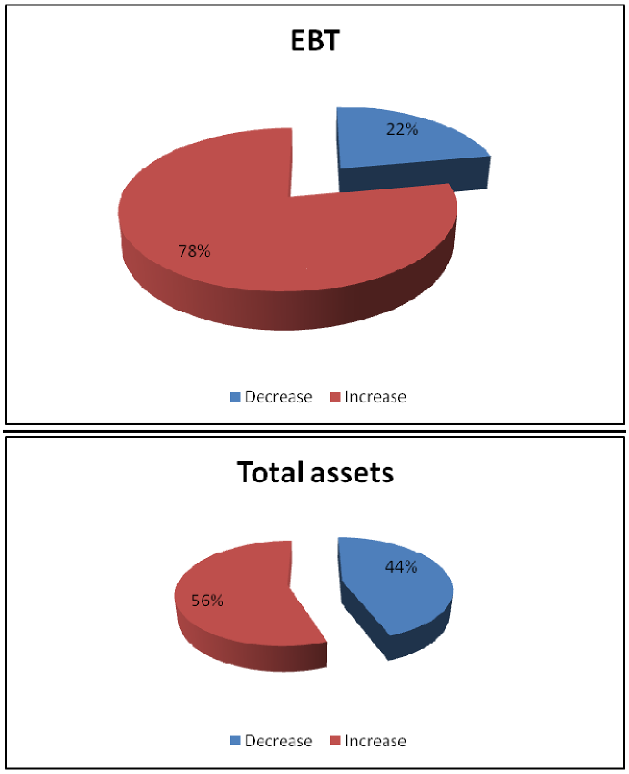

Fig. 3 Effect of trial conversions from CZ GAAP to IFRS on EBT and total assets.

In Table 1 it can be seen how the individual categories of financial statements has changed – if it has increased, decreased or it there was no change.

	Decrease	Increase	No change	Note
ASSETS				
Long-term intangible assets	0%	44%	56%	B
Long-term tangible assets	11%	78%	11%	A
Activation of low value assets	0%	89%	11%	B
Long-term financial assets	11%	11%	78%	E
Long-term receivables	0%	33%	67%	F
Inventory	22%	11%	67%	B
Short-term receivables	22%	56%	22%	F
Allowance to receivables	0%	22%	78%	C
Short-term financial assets	0%	11%	89%	E
LIABILITIES				
Retained earnings	22%	56%	22%	A, B, D
Provisions	33%	33%	33%	C
Long-term payables	0%	56%	44%	A
Short-term payables	0%	89%	11%	A
Loan	11%	0%	89%	E
PROFIT AND LOSS				
Activation	22%	0%	78%	D
Operating expenses	67%	0%	33%	B
Services	56%	0%	44%	A
Depreciation	0%	100%	0%	A, B
Change of provisions and allowances	22%	44%	33%	C
Other operating revenues	11%	44%	44%	D
Interest expense	0%	67%	33%	A
Revenues	11%	0%	89%	E
Interest income	0%	11%	89%	E
Extraordinary revenues	33%	0%	67%	D
Extraordinary expenses	33%	0%	67%	D

Table 1 Effect of trial conversions from CZ GAAP to IFRS.

Note A: Significant increase of tangible assets and payables (both short-term and long-term) was mainly due to effect of leasing adjustment. Connected to activation of leased assets the depreciation has increased. The services have decreased due to the elimination of lease costs booked under CZ GAAP. The Interest expense has increased due to the recognition of lease. This adjustment was performed in 78% of all companies.

Note B: Effect of activation of low value assets (booked in

CZ GAAP in operating expenses) and transfer of some items booked in CZ GAAP in inventory but meeting the criteria of tangible assets. The depreciation increase is also affected by this type of adjustments. This adjustment was performed in 89% of all companies.

From notes A and B it can be seen that leasing adjustment and activation of assets are frequently used adjustments and represent the most frequent differences between IFRS and CZ GAAP.

Note C: Here we can see the frequency of other quite often in literature mentioned differences which are provisions and allowances. In our research it can be seen that the provisions which are booked under CZ GAAP but do not meet the criteria of provision under IFRS are not so often present (only by 33% of companies). On the other hand in some cases there have been some provisions in CZ GAAP missing (also by 33% of companies) and they had to be created for IFRS. By 22% of companies additions allowances to receivables have been created in line with IFRS.

Note D: Here we can see the reclassification that was needed because of extraordinary items used in CZ GAAP but not allowed under IFRS, this was a case of 33% of companies and have been reclassified according to the type into other expenses or revenues or into retained earnings. The other case is the case of activation which was used by 22% of companies and which had to be reclassified from revenues into costs to be in line with IFRS.

Note E: This represents the items in the financial statements with not significant change. Quite surprisingly are also revenues represented in this category when by 89% of the companies there were no changes.

Note F: The increase of receivables can be explained by the reclassification of deferred assets which are under CZ GAAP recorded as a separate item of financial statements.

V. Full adoption, permission or convergence?

The adoption of Internal Accounting Standards by the EU has the goal of harmonizing financial information to enhance the degree of transparency and comparability of financial statements. The need for harmonization is evident and stems from the differences that exist between accounting systems, and so the literature is concentrated on finding reasons that could explain such differences [5].

Czech Republic has not announced any adoption or convergence plans yet and the current situation is not very favorable for the companies willing to report under IFRS. In this last part of this paper we discuss 3 possible options of future development (full adoption, permission or convergence) and their impact on Czech companies.

A. *Full adoption*

In case of full adoption of IFRS all Czech companies would have to report under IFRS – under full IFRS in case of public companies and under IFRS for SMEs for companies meeting the criteria of not publicly accountable entity.

This would be plus for companies willing to report under IFRS. On the other hand other companies and sole traders would be disadvantaged as IFRS is more complicated than CZ GAAP, requires specific knowledge as is based on principles not rules like Czech accounting legislation.

For the Czech Republic full adoption would mean shift to worldwide reporting system which is being developed by external bodies and therefore no specific development would be required locally. On the other hand before the adoption significant cost would have to be invested – Czech tax legislation has to be adjusted to be able to calculate income tax from IFRS result, system of professional education has to be set up and the system of transition has to be developed.

B. *Permission*

Permission of reporting under IFRS and the availability to use IFRS result for calculation of income tax is the optimal option. The companies that would like to report under IFRS would have the possibility, other companies would prepare its financial statements in line with CZ GAAP.

Czech tax legislation has to be adjusted as well and the system of professional education will be needed. On the other hand companies would not be limited in their shift to IFRS.

C. *Convergence*

Convergence is an ongoing process of stepwise harmonization of CZ GAAP and IFRS. Process of convergence of Czech accounting and IFRS started in 2004 where there was an amendment of Czech Act on Accounting. Since that time there were some minor amendments but without any concept.

For Czech companies the convergence with IFRS for SMEs would be optimal. The most significant differences between CZ GAAP and IFRS would be limited. Compared to full IFRS, IFRS for SMEs is easier to understand and apply.

VI. Conclusion

In this paper we have summarized the opportunities and challenges that IFRS bring to the Czech companies. Main opportunities are that the companies have more accurate information about its financial position; they have better possibilities of financing and better relationship with their stakeholders as they can provide understandable financial statements. Challenges that companies has to face are the differences between IFRS and CZ GAAP, Czech tax legislation not allowing Czech companies to prepare financial statements only under IFRS and therefore the additional cost related to reporting under IFRS.

We have also provided the result of our current research under GA CR project. It can be seen that the % of companies preparing IFRS financial statements is increasing but is still very low. From the trial conversions of financial statements under CZ GAAP into financial statements in line with IFRS the major differences between IFRS and CZ GAAP can be verified. It has been approved that financial leasing and activation of assets are very frequent differences. Also difference in provisions and allowances, extraordinary items, activation and other reclassification has been present. Quite surprisingly difference in revenues has not been so significant.

At the end of the paper we have discussed the impact of three possible ways of harmonization. Full IFRS adoption, permission and convergence were mentioned. The permission seems to be the best option for Czech companies.

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