CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

Department of Trade and Finance

Bachelor Thesis

Financial Accounting Harmonization within European Union

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Declaration

I certify that I have worked on this Bachelor thesis titled

"Financial Accounting Harmonization within European Union"

Individually and all used resources are included in the bibliography section.

V Praze dne 31. 03. 2010 ……………………………...

Jiří Kala

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Financial Accounting Harmonization within European Union

Bakalářská práce

Harmonizace finančního účetnictví v rámci Evropské unie

Harmonizace finančního účetnictví v rámci Evropské unie

Souhrn:

Tato práce je rozdělena na dvě základní části. První část je teoretickým výkladem a popsáním základních principů IAS/IFRS. Obsahuje historii IAS/IFRS, vysvětlení jednotlivých řídících orgánů a jejich funkcí, základní prvky účetnictví, z čeho se skládá koncepční rámec a popsání účetní závěrky.

Druhá část popisuje účetní standardy jednotlivých zemí Evropské unii. Stručně popisuje historii každé země, orgány které jsou zodpovědné za účetní standardy a ukazuje hlavní rozdíly mezi standardy dané země a mezinárodními standardy IAS/IFRS.

Klíčová slova:

Účetní standardy, Koncepční rámec, účetní závěrka, IAS/IFRS, Evropská Unie, 4. direktiva, 7. direktiva, 8. direktiva

Financial Accounting Harmonization within European Union

Summary:

This thesis is divided into two parts. The first part is purely theoretical explanation and description of basic principles of IAS/IFRS. This part considers the history of IAS/IFRS, the authorities which make new standards and explanations of their functions, the basic elements of accounting and lastly what the conceptual framework consist of.

The second part describes the accounting standards of various countries in the European Union. It briefly describes the history of each country, authorities responsible for accounting standards and shows the main differences between the standards of the country and the IAS/IFRS.

Key words:

Accounting Standards, Conceptual Framework, Financial Statement, IAS/IFRS, European Union, 4th Directive, 7th Directive, 8th Directive

Content

1. Introduction

Each state has certain rules and laws, inseparable part of it are accounting standards. Every company, every businessman has to do accounting according to certain norms. If companies do not follow these norms, they can be punished by great fine.

When companies want to make business in international market, they need to have comparable financial statements with other international companies. Due to this fact, EU introduces standards IAS/IFRS according to which companies are able to deal with international market.

The instruments of global harmonization are IAS/IFRS, U.S. GAAP and EU directives. IAS/IFRS standards are used on European market, while U.S. GAAP standards are used on US market, can be called world market.

2. Objectives and Methodology

The bachelor thesis objective is the analysis of accounting harmonization within the European Union. Among principal objective of thesis work, the particular goal is partial accounting standards comparison of chosen European countries.

The bachelor thesis is made by literary sources listed in bibliography. There were used analysis and comparison of certain accounting standards.

In the first part, there is world and European accounting harmonization history, authorities which are responsible for modifying and creating new standards, description of conceptual framework and explanation of financial statements.

In the second part, there are compared standards of the unitary countries. There is brief description of each country, its accounting history and main boards responsible for its standards. Then, there are analysed differences in particular standards.

Finally, as a supplement, there is an investigation of several accountants in ordinary Czech company to find out how the accountants are familiarized with IFRS.

3. Literature review

This chapter explains IAS/IFRS History, IAS/IFRS Authorities, Conceptual Framework, Financial Statements and three directives of the European Community. The main purpose is to show basics of accounting, briefly describe authorities, reason of being Conceptual Framework and main components of Financial Statements.

3.1. IAS/IFRS History

Financial reporting in the developed world evolved from two broad models, whose objectives were somewhat different. The earliest systematized form of accounting regulation developed in continental Europe, starting in France in 1673. Here a requirement for an annual fair value balance sheet was introduced by the government as a means of protecting the economy from bankruptcies. This form of accounting at the initiative of the state to control economic actors was copied by other states and later incorporated in the 1807 Napoleonic Commercial Code. This method of regulating the economy expanded rapidly throughout continental Europe, partly through Napoleons´ efforts and partly through willingness on the part of European regulators to borrow ideas from each other. This „code law“ family of reporting practices was much developed by Germany after its 1870 unification, with the emphasis moving away from market values to historical cost and systematic depreciation. It was used later by governments as the basis of tax assessment when taxes on profits started to be introduced, mostly in the early twentieth century.

This model of accounting serves primarily as a means of moderating relationships between the individual and the state. It serves for tax assessment, and to limit dividend payments, and it is also a means of protecting the running of the economy by sanctioning individual businesses that are not financially sound or were run imprudently. While the model has been adapted for stock market reporting and group (consolidated) structures, this is not its main focus.

The other model did not appear until the nineteenth century and arose as a consequence of the industrial revolution. IFRS are an example of this second, capital market oriented systems of financial reporting rules. The original international standard setter, the International Accounting Standard Committee (IASC), was formed in 1973, during a period of considerable change in accounting regulation. IASC was established in London, where its successor, the IASB, remains today. [1, 2]

3.2. IAS/IFRS Authorities

3.2.1. IASCF (International Accounting Standards Committee Foundation)

The International Accounting Standards Committee Foundation is the independent, non-profit foundation, created in 2000 to oversee the IASB. This Committee has 22 trustees.

3.2.2. IASB (International Accounting Standards Board)

The International Accounting Standards Board is an independent, private-sector body that develops and approves International Financial Reporting Standards. The IASB operates under the oversight of the International Accounting Standards Committee Foundation (IASCF). The IASB has 15 members, each one with vote. The IASB was formed in 2001 to replace the International Accounting Standards Committee.

Objectives of IASB:

- ✓ to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions
- ✓ to promote the use and rigorous application of those standards
- ✓ in fulfilling the objectives associated with previous two objectives, to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies
- ✓ to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

3.2.3. SAC (Standards advisory council)

The primary objective of the Standards Advisory Council of the International Accounting Standards Board (SAC) is to provide a forum where the International Accounting Standards Board (IASB) consults individuals, and representatives of organisations affected by its work, that are committed to the development of high quality International Financial Reporting Standards (IFRS).

3.2.4. IFRIC (International Financial Reporting Interpretations Committee)

This board replaced the former Standing Interpretations Committee (SIC) in March 2002. IFRIC mission (from the IASCF Constitution) is to interpret the application of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and provide timely guidance on financial reporting issues not specifically addressed in IAS and IFRS, in the context of the IASB Framework, and undertake other tasks at the request of the IASB. International Financial Reporting Interpretations Committee develop interpretations of IAS and IFRS. [3]

3.3. Conceptual framework

The Framework states that the objective of financial statements is to provide information about the financial positions, performance and changes in financial positions of an enterprise that is useful to a wide range of users in making economic decisions. The information needs of investors are deemed to be of paramount concern, but if financial statements meet their needs, other user´ need would generally also be satisfied.

The Framework holds that users need to evaluate the ability of the enterprise to generate cash and the timing and certainty of its generation. The financial position is affected by the economic resources controlled by the entity, its financial structure, its liquidity and solvency, and its capacity to adapt to changes in the environmental in which it operates.

The Framework does not specifically included a „true and fair" requirement, but says that application of the specified qualitative characteristics should result in statements that present fairly or are true and fair. Of great importance are the definitions of assets and liabilities. According to IASB, an asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow the enterprise. A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying future benefits. Equity is simply a residual arrived by deducting the liabilities from assets. Neither asset nor liability are recognized in the financial statements unless they have a cost or value that can be measured reliably – which, as the Framework acknowledges, means that some assets and liabilities may remain unrecognized.

The IASB Framework is relatively silent on measurement issues. The three paragraphs that address this matter merely mention that several different measurement bases are available and that historical cost is the most common. Revaluation of tangible fixed assets is, for example, perfectly acceptable under IFRS for the moment. In practise IFRS have a mixed attribute model, based mainly on historical cost, but using value in use (the present value of expected future cash flows from the use of the asset within the entity) for impairment and fair value (market value) for some financial instruments, biological asset, business combinations and investments properties. [2]

3.4. Financial statement

Financial statement is a structured financial representation of the financial position of and the transactions undertaken by an enterprise and elaborates that the objective of general-purpose financial statements is to provide information about an enterprises´ financial position, its performance, and its cash flows, which is then utilized by a wide spectrum of end users in making economic decisions. This information is communicated through a complete set of financial statements which, according to IAS 1, comprises the following components:

- ✓ A balance sheet
- ✓ An income statement
- ✓ Another statement showing either
    - o All changes in equity, or
    - o Change in equity other than those arising from capital transactions with owners and distributions to owners
- ✓ A cash flow statement
- ✓ Notes comprising a summary of significant accounting policies and other explanatory notes [2]

3.5. Most important directives

3.5.1. 4th directive

Fourth directive was adopted in 1978. This directive adjusts following - financial statement and its eventual appendix, content of items, appreciation, content of appendix, anniversary messages and publishing. It is very important directive for European harmonization. This directive is not accounting law.

3.5.2. 7th directive

This directive adjusts consolidation of financial statements. The mother company make statements not just for itself, but also for all group including consolidation annual report. This directive regards multinational companies

3.5.3. 8th directive

This directive is greatly complicated. 8. directive rallies requests on auditors with the view that auditors can work within European Union. Banks and financial institutions has its individual norms, same as companies with mother-company in EU or non in EU. [4]

4. Main differences in European countries standards and IFRS

4.1. Impact of IFRS Adoption by EU Companies

The effect of change to IFRS has varies from country to country and from company to company. National GAAP of many European countries were developed to serve or facilitate tax and other regulatory purposes, so principles differed from state to state.

One of the most important effects of the change to IFRS-basis financial reporting will reverberate throughout companies´ legal relationships. Obviously, companies must make appropriate disclosure to their stakeholders in order to properly explain the changes and their impact. Additionally, accountants and lawyers will also have to review the significantly expanded footnote disclosures required by IFRS in financial statements.

Drafters must examine the use of „material adverse change“ triggers in the context of businesses whose earnings may be subject to accounting volatility. Debt, equity and lease financial arrangements may require restructuring due to anticipated changes in reported results arising from the use of IFRS.

For example, IFRS may require a reclassification of creation financial instruments, previously shown as equity on a companies´ balance sheet into their equity and debt components. Additionally, IFRS permits companies to adjust the carrying values of investments property (real estate) to fair market values with any gains being reflected in the income statement.

Executives may be concerned about compensation systems tied to earnings increases between measurement dates when earnings can be so volatile, or they may simply be concerned that compensation arrangements are keyed to results which are no longer realistic.

Few companies want to entertain dated or „frozen“ GAAP for document purposes because of the costs involved in maintaining two separate systems of accounting. As a result, companies, their lawyers and accountants will have to re-examine agreements in light of the anticipated effect of IFRS on companies´ financial statements. [2]

4.2. Austria

As part of its efforts to contribute to the harmonization of accounting practices in the European Union, the Austrian Parliament enacted the Accounting Law in 1990 followed by an amendment of the Austrian Commercial Code (HGB) in 1999. While the 1990 Law incorporated the 4th and 7th European Union (EU) directives on harmonization of accounting practices, the 1999 amendment of the HGB allowed all Austrian companies, listed or unlisted, to use International Financial Reporting Standards (IFRS) in preparation of their consolidated financial statements. In 2001, the Vienna Stock Exchange made it a requirement for certain listed entities to apply IFRS or U.S. Generally Accepted Accounting Principles (GAAP) in consolidated financial statements. However, in accordance with the European Commission (EC) Regulation, beginning 2005 all listed companies in the EU are required to use IFRS in their consolidated accounts. The 2006 EC report confirmed that Austria requires IFRS in the consolidated accounts of listed companies and permits IFRS in the consolidated accounts of all other companies. IFRS, however, are not permitted for use in the annual accounts in any type of companies. Therefore, apart from the mandatory application of IFRS, other companies follow the HGB and financial reporting regulations specified in other laws for financial institutions, insurance companies, and investment funds.

Differences

IAS 1: Presentation of Financial Statements - there are no specific rules requiring disclosure of cash flow statement, and primary statement of changes in equity is not required by national GAAP. Other differences also exist.

IAS 12: Income Taxes - under Austrian GAAP, deferred tax assets on loss carry forwards must not be recognized and certain other deferred tax assets need not be recognized.

IFRS 8: Operating Segments - differences exist between requirements for accounting for segment reporting under Austrian GAAP and the international equivalent. [5]

4.3. Belgium

In line with the European Commission's (EC) Regulation, listed companies in Belgium are required to use International Financial Reporting Standards (IFRS) as endorsed by the European Union for preparation of consolidated accounts. As far as the options available for member states to permit or require international standards in other types of accounts for different types of companies are concerned, the 2008 EC report on the implementation of Regulation asserts that Belgium requires IFRS in the annual accounts of listed real estate investment companies and will consider permitting IFRS in the annual accounts for other companies (listed and unlisted), once the tax and legal aspects of this decision are evaluated. Further, the use of IFRS is permitted in the consolidated accounts of all other companies and is required in the consolidated accounts of credit institutions and investment firms. Companies that are not required to use IFRS or choose not to use them follow the Belgian Generally Accepted Accounting Principles, which, according to a number of publications on the subject, differ from their international equivalents. However, the Accounting Standards Committee (ASC) published the "Policy plan concerning the application of the IFRS Regulation and the convergence of the Belgian accounting law towards IFRS" with the objective of "adjusting" the Belgian accounting framework to IFRS.

Differences

IFRS 1: First-time Adoption of IFRS – this standard is "not applicable" under Belgian GAAP.

IFRS 2: Share-based Payment - accounting for share-based payments is not addressed in Belgian GAAP.

IFRS 5: Non-current Assets Held for Sale and Discontinued Operations - the Belgian GAAP do not contain requirements comparable to this standard.

IFRS 8: Operating Segments - the Belgian GAAP do not specifically address the topic of Segment Reporting. [5]

4.4. Denmark

Starting 2009, all non-financial listed companies are required to use IFRS in preparation of annual accounts. All other entities are permitted to prepare annual and consolidated accounts in accordance with IFRS. Entities that do not apply international standards follow national Generally Accepted Accounting Principles (GAAP) primarily comprised of the Financial Statements Act, the Danish Accounting Standards (DKAS), and Ministerial Orders issued by the Ministry of Business and Industry in Denmark. Although the Financial Statements Act is based on the International Accounting Standards Board framework, differences exist largely due to the incorporation of the requirements laid out in the EC directives. Similarly, the DKAS, which are applicable to listed entities, are based on IFRS, although there are differences with the equivalent international standard, the report adds. As far as the financial reporting requirements for small and medium-size enterprise (SME) are concerned, a presentation by Jan-Christian Nielsen of the Danish Commerce and Companies Agency notes that starting 2009, the international standard on SME may be allowed but not required in Denmark.

Differences

IAS 1: Presentation of Financial Statements - unlike national requirements, under the international framework, specific minimum disclosure requirements apply to the income statement under IAS 1 (and) IAS 1 does not require disclosure of "Profit or loss from primary activities/operating profit or loss" or "Profit or loss from ordinary activities.“. The report further explains that unlike Danish requirements, fixed formats or "schedules" do not apply to the income statement. Among the many other differences, the report notes that under IFRS, presentation as extraordinary items is not permitted in the income statement or in the notes to the financial statements.

IFRS 1: First-time Adoption of IFRS - unlike national requirements, IFRS 1 imposes additional disclosure requirements and requires explanation of the effect from the transition to IFRS on the entity's financial position, results and cash flows. Also, a number of reconciliations are required to be prepared for amounts under the accounting policies formerly applied and the policies applied in the first IFRS financial statement.

IFRS 2: Share-based payment - unlike national requirements, under the international framework, share-based payment is measured at fair value and expensed over the vesting period. Other key differences include the fact that IFRS 2 distinguishes between three types of share-based payment transactions: equity-settled, cash-settled and with cash alternatives.

IFRS 3: Business Combinations - unlike national requirements, under the international framework, assets and liabilities under IFRS 3 are measured at fair value. Among other differences, application of the pooling of interests method is not permitted for business combinations within the scope of IFRS 3 (and) negative goodwill is recognized immediately in profit or loss.

IFRS 4: Insurance contracts - unlike national requirements, under the international framework, there are limited rules governing accounting for insurance contracts and significant disclosure requirements compared to Danish GAAP for insurance companies.

IFRS 5: Non-current Assets Held for Sale and Discontinued Operations – there are differences in the treatment of recognition, measurement and presentation of non-current assets and disposal groups held for sale. These assets are not depreciated, and are accounted differently under national GAAP. Unlike Danish GAAP, IFRS 5 also contains disclosure and presentation requirements for discontinued operations. [5]

4.5. Finland

Finland permits IFRS in the annual accounts for listed companies (except insurance companies) and in the annual and consolidated accounts for all other companies that are audited by certified auditors. Companies that choose not to apply IFRS adhere to an accounting framework governed by the Accounting Act and the Accounting Ordinance, the requirements of which, differ from IFRS. There have not been announced any plans for convergence of the local requirements with the international standards.

Differences

IAS 7: Cash Flow statement - there are no specific rules concerning the form of a financial analysis. A sources and application of funds statement is adequate.

IAS 12: Income Taxes – among other differences, current tax amounts are not recognized directly in equity (and) some tax items are presented as operating expenses.

IFRS 3: Business combinations - among other differences, pooling of interests accounting is fairly common (and) fair value adjustments may be subsumed within goodwill. [5]

4.6. France

France complies with the European Union Regulation which requires International Financial Reporting Standards (IFRS), as endorsed by the European Commission (EC), in preparation of consolidated financial statements of listed entities. Non-listed entities are also permitted application of IFRS in their consolidated financial statements. However, IFRS are not permitted in preparation of annual accounts of all entities which must apply French accounting standards instead. As pointed out in a number of publications, French accounting requirements differ from the international standards. With regards to convergence, a 2007 European Committee of Central Balance Sheet Data Offices report pointed out that France has a policy of "progressive convergence" of national Generally Accepted Accounting Principles towards IFRS, with simplification for small and medium sized enterprises. However, since 2004, in line with its progressive convergence policy position, France has been selective in endorsing IFRS and has partially adopted only a few of the international standards. A 2006 National Organization of Registered Auditors' (CNCC) self-assessment adds that convergence in France is limited with the possibility to stay that way until national tax and legal issues arising due to the application of international accounting standards in the individual annual accounts are resolved. More recently, a 2009 CNCC Action Plan reiterated that the newly established accounting standard-setter, the Accounting Standards Authority will continue to pursue convergence taking into consideration the limitations of the French tax and legal environment.

Differences

IAS 1: Presentation of Financial Statements - unlike IFRS, under the French GAAP, no statement of recognized gains and losses is required (and) the statements of changes in equity and cash flows need not be presented as primary statements. Other differences also exist.

IFRS 2: Share-based Payment - unlike IFRS under the French GAAP there are no disclosure requirements for share-based payments.

IFRS 3: Business Combinations - unlike IFRS, under the French GAAP, in determining the cost of acquisition, the fair value of equity securities issued is determined at a date set by the market regulator.

IFRS 5: Non-current assets Held for Sale and Discontinued Operations - unlike IFRS, under the French GAAP, "there are no rules for discontinuing operations.

IFRS 8 standard (Operation Segments) - unlike IFRS, under French GAAP segment reporting can be omitted if the directors consider it seriously prejudicial to the enterprise. Other differences with regard to disclosure requirements also exist. [5]

4.7. Germany

Germany permits IFRS in the annual and consolidated accounts of all types of companies for information purposes only, and these entities are required to prepare financial statements in accordance with national accounting law for purposes of profit distribution, taxation, and financial services supervision. Generally, German accounting requirements, which are primarily contained in the German Commercial Code (HGB), differ from IFRS – i.e. the objective of financial statements prepared under IFRS is to provide information to investors, while the German system focuses on providing information on distributable profits in order to protect creditors. Furthermore, tax regulation also influences the preparation of financial statements. In May 2009, the German Ministry of Justice issued the Act on Modernization of Accounting Regulations, which modernizes the HGB, reduces the regulatory burden on companies, and better aligns German accounting requirements with IFRS, but differences still persist. With respect to the IFRS for small and medium-sized entities (SME) issued by the International Accounting Standards Board, the Institute of Auditors (IDW) is explicit in not supporting the application of IFRS for SME in Germany as – in the opinion of the IDW - in the case of Germany, the costs will outweigh the benefits. .

German Generally Accepted Accounting Principles (GAAP) are based on both codified and non-codified underlying principles. The codified principles are contained in the German Commercial Code. However, accounting requirements contained in the HGB and other legal requirements lack guidance on specific issues such as leasing accounting. Therefore additional literature and court decisions interpreting accounting issues are an essential part of the accounting system. In addition, the German Accounting Standards Board (GASB) sets German Accounting Standards (GAS) that are applied in the preparation of the consolidated financial statements. In the book - Institute of Auditors "the standards of the GASB provide recommendations on how to apply the accounting principles of the German Commercial Code and fill existing gaps within these accounting rules with respect to the consolidated financial statements.

Differences

IAS 1: Presentation of Financial Statements - a statement of cash flows and a statement of changes in equity are required only for listed companies.

IFRS 3: Business Combinations - the requirements for a uniting of interests are easier to satisfy than under IFRS, but such accounting is applied optionally. There are also differences in the accounting for consolidation, goodwill, negative goodwill, deferred taxes, etc.

IFRS 5: Non-current Assets held for Sale and Discontinued Operations - there is no concept of discontinuing operations. A gain/loss on the sale or abandonment of a major part of an enterprise sometimes is presented as an extraordinary item.

IFRS 7: Financial Instruments - disclosures of certain risks are part of management report. There are no specific rules that are comparable to IFRS.

IFRS 8: Operating segments - the segmentation is based wholly on the internal reporting structure. [5]

4.8. Hungary

The Hungarian accounting framework is primarily governed by the Act on Accounting, which includes the Hungarian Accounting Standards (HAS). The HAS, according to a 2004 World Bank assessment of accounting and auditing practices in Hungary, differ from the International Financial Reporting Standards (IFRS), despite significant efforts at harmonization. Being a European Union member, Hungary complies with the European Commission Regulation, which requires the application of IFRS in the preparation of consolidated financial statements of listed companies. Hungary permits application of IFRS in consolidated accounts of all entities within the scope of the Act on Accounting, but not in the annual accounts. The use of IFRS in the annual accounts is allowed for informal purposes only. In this regard, the 2004 World Bank assessment recommended adoption of IFRS for all public interest entities in the country.

Differences

IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors - the HAS 17 definition of extraordinary items is broader that the definition provided by IFRS. HAS specifically require the classification of specific gains and losses as extraordinary items;

whereas International Accounting Standards (IAS) 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, requires those items to be classified as ordinary items.

IAS 12: Income Taxes - HAS do not mention deferred tax accounting; whereas IAS 12 requires that an enterprise recognize the amount of current and future tax related to events that have been recognized in financial accounting income.

IAS 17: Leases - assets purchased under finance leases must be capitalized. However the definition of a finance lease is much more restricted under HAL (Hungarian Accounting Law) than under International Financial Reporting Standards, and most lease agreements in Hungary are structured as operating leases for HAL purposes. [5]

4.9. Ireland

Ireland permits IFRS in the annual accounts for listed companies and annual and consolidated accounts for all other companies, except for companies "not trading for gain." Companies which choose not to apply IFRS are required to use accounting standards issued by the United Kingdom Accounting Standards Board (ASB) and its Urgent Issues Task Force, as promulgated by the Institute of Chartered Accountants in Ireland. According to a number of publications on the subject, UK standards differ from IFRS. However, in March 2004, the ASB released its "Discussion Paper: UK Accounting Standards - A Strategy for Convergence with IFRS," in which it announced that it intends to bring national accounting standards in line with IFRS so as to avoid the use of two different sets of accounting rules in the UK. After extensive public consultations with stakeholders, the ASB gradually moved from the initial "phased approach" to convergence to a "big bang" model, which implies mandatory adoption of IFRS-based UK standards at a specified future date. As of 2009, some UK FRS are already based on the corresponding international standards. The ASB intent is to incorporate amendments to the existing IFRS-based UK standards concurrently with the

International Accounting Standards Board. In line with this strategy, in 2008 the ASB issued improvements to UK FRS, in order to incorporate the International Accounting Standards Board's Improvement Project. In sum, the ASB remains committed to convergence; however, the strategy for achieving it remains under consideration.

Differences

IAS 1: Presentation of Financial Statements - there are differences between UK GAAP and IAS 1 primarily in the area of equity reconciliation, order and format of items to be presented, and detailed disclosure of operating profit.

IAS 12: Income Taxes - Reflecting differences in the conceptual approaches underlying (the standards).

IAS 34: Interim Financial Reporting - UK GAAP has no standard equivalent to IAS 34. The ASB issued a Statement 'Half-Yearly Financial Reports' in July 2007, which provides guidance for any UK entities that are required or voluntarily choose to prepare half-yearly financial reports. [5]

4.10. Portugal

Portuguese listed companies are permitted the use of IFRS in their annual accounts except for listed banks, insurance companies, and other financial institutions, which are required to apply IFRS in preparation of annual accounts. As for unlisted entities, IFRS are permitted in the preparation of consolidated accounts and annual accounts. However, unlisted banks and financial institutions are required to apply IFRS in their consolidated accounts. Portuguese companies not applying IFRS follow national GAAP which primarily consists of the Portuguese Accounting Plan (POC).

Portuguese Generally Accepted Accounting Principles (GAAP) derive from the following rules in the given order of priority: (1) the Portuguese Accounting Plan (POC); (2) the Accounting Directives issued by the Portuguese Accounting Standards Board (CNC); and (3) the International Accounting Standards Board pronouncements in the absence of national rules and guidelines.

Differences

IAS 1: Presentation of Financial Statements - unlike national requirements, extraordinary items are not allowed under IFRS. Further, Cash Flow Statements are obligatory only for companies who, in two consecutive years, surpass two of these three limits: Total Assets 1,500,000 Euro; Turnover 3,000,000 Euro; Average number of employees 50.

IAS 2: Inventories - unlike IFRS, under national requirements, it is sufficient to indicate the valuation criteria used for the items in the balance sheet and profit and loss account.

IFRS 5: Non-current Assets Held for Sale and Discontinued Operations - unlike IFRS, under national requirements, discontinuing operations do not need to be divulged so thoroughly. Further, in the Account of Profit and Loss by Functions the Company has to include a line before Extraordinary Results to isolate the results (after taxes) related to the activities or divisions, which are in the process of discontinuation or have already been discontinued. [5]

4.11. Slovakia

Banks, insurance companies, stock exchanges, companies meeting the specified size criteria, and certain other entities – these are the public interest which have to have annual accounts according to IFRS in Slovakia. Other companies can choose to prepare financial statements in accordance with IFRS or Slovak accounting principles. In a 2001 assessment of auditing and accounting practices in the Slovak Republic, the World Bank noted that there was a "large gap" between Slovak accounting standards and IFRS and recommended full adoption of IFRS. Based on the World Bank's recommendations, the Slovak authorities initiated an accounting and auditing reform program with the support of a grant from the Institutional Development Fund. The Slovak government set up the Project Implementation Unit in 2003 to strengthen the regulatory framework and the accountancy profession.

The World Bank conducted a review of accounting and auditing practices in Slovakia in 2001 in order to evaluate the weaknesses and strengths of the accounting and auditing requirements, and to review the reporting requirements against actual practices. The Report on the Observance of Standards and Codes (ROSC) published in November 2001 contained a number of suggested policy recommendations to improve the reporting framework in Slovakia, including adoption of IFRS since the Slovak accounting standards significantly differed from the international equivalents. Based on the World Bank's recommendations the government of Slovakia initiated a program of accounting and auditing reform supported by a grant from the Institutional Development Fund. One of the purposes of the reform was to ensure that IFRS are adopted as mandatory accounting standards. The government of Slovakia collaborated with the SKAU to establish the National Steering Committee (NSC) which was headed by the State Secretary of Finance and comprised representatives from the government, regulatory, supervisory and industry bodies. Other than adoption of IFRS and International Standards on Auditing (ISA), technical support was provided for the establishment of the Financial Reporting Council (FRC), an independent oversight body, and for assisting the SKAU in the implementation of the existing and future IFRS.

Differences

IAS 1: Presentation of Financial Statements - the Slovak disclosure requirements are very limited in comparison with the IAS, the explanatory notes are presented according to standard formats provided in the Regulation, and Income Statement and Balance Sheet figures are not cross-referenced to the notes.

IFRS 7: Financial instruments - the Slovak requirements on recognition, measurement, and disclosure for financial instruments are not compatible with the IAS requirements.

IFRS 8: Operating segments - there is no requirement, as in the IAS, to identify reportable segments -- business segments and geographical segments -- or to disclose detailed information about the reportable segment's revenue, results, assets, liabilities, and so on. [5]

4.12. Spain

According to the International Monetary Fund's 2006 Financial System Stability Assessment, Spain's accounting and auditing professions are well-developed, and in general are in accordance with internationally accepted rules and practices.

Spain opted for the extended use of IFRS, according to the European Committee's Central Balance Sheet Data Offices (CBSO). Starting 2005, unlisted companies are allowed to apply either Spanish General Accepted Accounting Principles (GAAP) or IFRS. Other companies must follow Spanish Generally Accepted Accounting Principles (GAAP). The Deloitte IAS Plus website indicates that as a result of corporate and accounting law reforms in Spain, new Spanish GAAP applicable for individual companies and unlisted consolidated groups was adopted in 2006, effective 2008.

Corporate and accounting law reforms in Spain has led Parliament to enact new Spanish GAAP in 2006, effective 2008. The proposal, contains modifications to current accounting framework for individual companies, in addition to some amendments in the Commercial Code, the Private Limited Companies Law and the General Chart of

Accounts. The new Spanish GAAP, based on IFRS but not equivalent as differences still exist, applies to individual companies and unlisted consolidated groups.

In order to apply simplified accounting rules, which are different from National GAAP and IFRS, companies are required to have the following criteria: (1) assets equal to 1,000,000 Euro; (2) annual turnover equal to 2,000,000 Euro; and (3) an average number of employees equal to 10. Simplified accounting regime differs from National GAAP and IFRS.

Differences

IFRS 2: Share-based Payment - Spain does not have accounting rules about share-based payments.

IFRS 5: Non-current Assets Held for Sale and Discontinued Operations - Spain does not have accounting rules about non-current assets held for sale and discontinued operations. [5]

4.13. Sweden

Swedish accounting practices are primarily governed by the mandatory Annual Accounts Act (AAA) and the Book-Keeping Act, supplemented by specific requirements for unlisted, listed, and financial companies, according to the Swedish Accounting Standards Board (BFN). The BFN issues standards for unlisted entities which are similar to the Swedish standards issued for listed entities, but offer significant relief for smaller companies. As far as listed companies are concerned, starting in January 2005 these companies are required to use International Financial Reporting Standards (IFRS) in their consolidated accounts. Sweden permits IFRS in the consolidated accounts of all types of companies, although the use of IFRS in the annual accounts is prohibited for all companies. Annual accounts of listed companies are to be prepared in accordance with the Recommendations issued by the Swedish Financial Reporting Board (SFRB). These recommendations are based on IFRS; however, changes have been made to the international requirements in order to adjust IFRS to the Swedish legal and tax environment, as well as in the cases deemed necessary by the SFRB. Financial companies, including credit institutions and insurance companies, are subject to standards issued by the Swedish Financial Supervisory Authority.

Differences

IAS 1: Presentation of Financial Statements - unlike the IFRS, the specific balance sheet format set out in the AAA and one of the two allowed formats for the income statement must be used.

IFRS 2: Share based Payment - unlike IFRS, SGAAP do not have an equivalent Swedish standard for listed companies.

IFRS 3: Business Combinations - with regard to listed entities under SGAAP unlike IFRS, the uniting of interest methods is allowed in limited circumstances. Other differences also exist.

IFRS 5: Non-current assets Held for Sale and Discontinued Operations - among other differences between Swedish and international requirements, under SGAAP there is no concept of assets held for sale or disposal groups for listed companies. [5]

5. Conclusion

There are visible differences between unitary countries and their standards. It is due to fact that harmonization of IAS/IFRS has not been a current issue lately but the expectations are that it will get better every year as the harmonization develops and improves constantly.

Standards, which are found to be the most non-harmonizated according to the unitary countries compared with IAS/IFRS are:

- ✓ IAS 1: Presentation of Financial Statements
- ✓ IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
- ✓ IFRS 2: Share-based Payment
- ✓ IFRS 3: Business Combinations
- ✓ IAS 12: Income taxes.

Standards above are sequenced according to the number of differences of chosen countries. It means that standard IAS 1 is different in most of the chosen countries, followed by standard IFRS 5 etc.

The most complicated countries, whose standards are different in many ways in comparison with IAS/IFRS are Denmark, Germany and Ireland.

Empirical research

One typical Czech accounting unit was asked by questionnaires to find out how are the members of this accounting unit familiarized with standards IAS/IFRS. This unit has about 10 members, mostly women. The company sells electronic goods. The interesting point is that accountants who normally work according to the Czech standards, also do part of Slovakian accounting because this company has some Slovakian stores as well.

This accounting unit is divided into two small parts. First one do accountancy of whole-sale and second one for part-sale in Czech Republic and Slovak Republic.

The result from the questionnaires is that most of the accountants have heard about IAS/IFRS, some of them even know something about 4th, 7th and 8th directives. Questionnaires are in the appendix of bachelor thesis.

6. Bibliography

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