

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade and Accounting



Bachelor Thesis

**Long-term Asset reporting according to International Financial
Reporting Standards IFRS**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Department of Trade and Accounting

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

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Thesis title

Long-term Assets Reporting according to International Financial Reporting Standards IFRS

Objectives of thesis

The aim of the thesis is to characterize accounting and reporting treatment for property (mostly used by the entity for more than one year) in accordance with International Financing Reporting Standards IFRS. Partial thesis aim is to explain and describe the terms of Investment Property, Property, Plant and Equipment, Non-current Assets Held for Sale and Discontinued Operations and Intangible Assets to begin with their measurement and reporting principals and continue with related disclosure requirements. The aim is to ensure that entity assets are carried at no more than their recoverable amount. Marginally, the differences in the issues under Czech law can be mentioned.

Methodology

In the first the thesis aims were determined. In order to reach the aims the appropriate theoretical sources are chosen and critically processed. The methods of analysis, synthesis and comparison are used to prepare theoretical and practical part of thesis. The gathering of knowledge and information is done through special literature. The knowledge and skills learned are discussed by using deduction method.

Schedule for processing

Specifying the schedule of working-out the bachelor's thesis:

| | |
|---------------------------|-------------------|
| 1. Introduction | 6/2011 |
| 2. Aims and methodology | 4/2011 - 6/2011 |
| 3. Theoretical basis | 6/ 2011 - 10/2011 |
| 4. Own work | 10/2011 - 12/2011 |
| 5. Results and discussion | 2/2012 |
| 6. Conclusion | 2/2012 |
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Keywords

International Financial Reporting Standards, Tangible Assets, Intangible Assets, Investment Property, Property, Plant and Equipment, Non-current Assets Held for Sale and Discontinued Operations, Impairment of Assets.

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Prague October 24, 2011

Declaration

I declare that I have worked on my bachelor thesis titled „Long-term Asset reporting according to International Financial Reporting Standards IFRS“ by myself and I have used only the resources mentioned at the end of the thesis.

In Prague on

Patricie Piskačová

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I would like to thank Ing. Marta Stárová for her advice and support during my work on this Thesis.

Vykazování dlouhodobého majetku dle mezinárodních účetních standardů IFRS

Long-term Asset reporting according to International Financial Reporting Standards IFRS

Souhrn

Bakalářská práce je zaměřena na dlouhodobý majetek vykazovaný podle mezinárodních standardů účetního výkaznictví (IFRS) a jejich interpretaci, praktické příklady a další aspekty související s mezinárodním vykazováním. Cílem práce je charakterizovat účetnictví a vykazování majetku, většinou užívaný účetní jednotkou po dobu delší než jeden rok v souladu s IFRS. Ze srovnání českých účetních standardů a mezinárodních standardů účetního výkaznictví uvedeny v diskusi, je zřejmé, že proces harmonizace ještě nebyl dokončen a mezi oběma účetními systémy existují podstatné koncepční rozdíly. Významné rozdíly mezi účetními standardy zahrnují dlouhodobý hmotný a nehmotný majetek. Příklady těchto rozdílů zahrnují především uznávání, oceňování a odepisování.

Klíčová slova

Mezinárodní účetní standardy IAS/IFRS, Dlouhodobý nehmotný majetek, Dlouhodobý hmotný majetek, Investice do nemovitostí, Pozemky, budovy a zařízení, Dlouhodobá aktiva držena k prodeji, Snížení hodnoty aktiv

Summary

This bachelor thesis is focused on long-term assets reporting according to International Financial Reporting Standards (IFRS) and its interpretation, practical view and other aspects connected with international reporting. The aim of the thesis is to characterize accounting and reporting treatment for property, mostly used by the entity for more than one year, in accordance with IFRS. From the comparison Czech Accounting Standards and International Financial Reporting Standards given in discussion is apparent that the harmonization process has not yet been completed and between both accounting systems exist essential conceptual differences. Significant differences between accounting standards involve long-term tangible and intangible assets. Examples of such differences cover especially recognition, measurement and depreciation.

Keywords

International Financial Reporting Standards IAS/IFRS, Long-term Intangible Assets, Long-term Tangible Assets, Investment Property, Property, Plant and Equipment, Non-current Asset Held for Sale, Impairment of Assets

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1. Introduction

Accounting is a system conveying information about a specific entity. It is the process of identifying, measuring, recording, and communication of economic transactions. Accounting is a service activity whose function is to provide primarily financial quantitative information about economic entities that is relevant in making economic decisions.

Long-term assets have important role in accounting. Long-term nonfinancial assets are primarily operational in character. Long-term assets present all items of property, held for more than one year that contribute to the value of an enterprise and they can be classified into two basic types - tangible and intangible. Tangible assets have physical substance and intangible asset have no physical substance.

This bachelor thesis is focused on long-term assets reporting according to International Financial Reporting Standards (IFRS) and its interpretation, practical view and other aspects connected with international reporting. International Financial Reporting Standards is a set of standards issued by International Accounting Standards Board (IASB) regulating the preparation and presentation of financial statements. Reporting standards regulate outputs. Above mentioned standards say what and in what form will inform the users. Nowadays IFRS is considered to be international accounting language.

International Financial Reporting Standards have been adopted in more than one hundred countries for obligatory or optional financial reporting by private or public entities. All member states of the European Union, including Czech Republic, are required to use IFRS as they have been adopted by the EU for listed companies since 2005. Application of International Financial Reporting Standards is required by European Union for companies emitting marketable securities in a public market, these companies are obliged to prepare consolidated financial statements in accordance with IFRS as well.

The IFRS Foundation, originally IASC Foundation, is the legal entity under which the IASB operates. The IFRS Foundation is governed by a board of 22 trustees. The aim of the International Financial Reporting Standards Foundation and the International Accounting Standards Board is to develop a single set of high-quality, enforceable, understandable and globally accepted financial reporting standards based on clearly presented principles.

2. Objectives and Methodology

The aim of the thesis is to characterize accounting and reporting treatment for property, mostly used by the entity for more than one year, in accordance with International Financial Reporting Standard IFRS.

Partial thesis aim is to explain and describe the terms of Investment Property, Property, Plant and Equipment, Non-current Assets Held for Sale and Discontinued Operations and Intangible Assets to begin with their measurement and reporting principals and continue with related disclosed requirements. The aim is to ensure that entity assets are carried at no more than their recoverable amount.

Despite the fact that the literature review of this bachelor thesis is not based on comparisons between accounting systems, the discussion includes some examples of differences between IFRS and Czech Accounting Standards.

In the first the thesis aims were determined. In order to reach the aims the appropriate theoretical sources are chosen and critically processed. The methods of analysis, synthesis and comparison are used to prepare theoretical and practical part of thesis. The gathering of knowledge and information is done through special literature. The knowledge and skills learnt are discussed by using deduction method.

The thesis will deeply analyze the individual standards containing long-term assets. The standards known to be concerned are:

- IAS 16 – *Property, Plant, and Equipment*
- IAS 36 – *Impairments of assets*
- IAS 38 – *Intangible assets*
- IAS 40 – *Investment Property*
- IFRS 5- *Noncurrent Assets Held for Sale and Discontinued Operations*

3. Literature review

3.1 IAS 16 – Property, Plant, and Equipment

IAS 16 deals with recognition, measurement and disclosures of property, plant and equipment as well as its depreciation and technical feasibility. The Standard also enables better understanding of an entity's investment in assets and its movements. [5]

The Standard IAS 16 defines Property, Plant and Equipment as tangible assets, which:

- a) company holds due to use in process of production, supply of goods or services, and administrative purposes; and
- b) has expected duration greater than one period. [1]

3.1.1 Key terms

The Standard is based on following key terms:

Carrying Amount. The amount at which an asset is recognized in balance sheet after deduction of any accumulated depreciation and accumulated impairment losses.

Cost. The amount of cash or its equivalents paid, or the fair value to acquire an asset at the acquisition or construction time or the amount attributed to asset initially recognized according the specific requirements of other standards.

Depreciable Amount. Acquisition cost of an asset or other amount substituted for cost, reduced by its residual value.

Depreciation. The systematic distribution of the depreciable amount of an asset during its useful life.

Expenditure. Expenditure is an indication of a cash outflow.

Expense. Expense represents decrease in equity that result from activity of the entity. It is outflow or other use of asset for the purpose of selling goods and services and it is also decrease in economic benefit over reporting period in the form of outflows of depletion of assets or incurrence of liabilities. [2, 4]

Fair value. Fair value is the amount for which an asset can be exchanged between knowledgeable willing parties in an arm's-length transaction.

Gain. According to the IASB's Framework the gains represent increases in economic benefits and as such are not different in their nature from revenues. Hence they are not regarded as separate elements in IASB's Framework. But traditionally, gains and losses are thought by accountants to arise from purchases and sales outside the regular business trading of the company for example gain incurred from disposal of long-term assets, unrealized gains on securities revalued.

Impairment Loss. The amount by which the book value of an asset exceeds its recoverable amount.

Loss. According to the IASB's Framework the losses represent decreases in economic benefits and as such are not different in their nature from expenses. Hence they are not regarded as separate elements in IASB's Framework. But traditionally, gains and losses are thought by accountants to arise from purchases and sales outside the regular business trading of the company for example losses from natural disasters, unrealized losses from exchange rate changes.

Owner-occupied property. Property held by the owner or the lessee under a finance lease for use in production or supply of goods and services or for administrative purposes. [5]

Recoverable Amount. The higher amount of net selling price of an asset and its value in use.

Residual Value. The estimated amount that an entity would presently get from the disposal of the asset, after deducting the expected costs of disposal, if the asset were already of the age and the condition estimated at the end of the useful life.

Revenue. Revenue represents an increase in equity caused by the sales of material, products, goods or services provided. It is a gross inflow of economic benefits over period arising in course of the ordinary and extraordinary activities of an entity.

Useful life. The period during which an asset is assumed to be obtainable for use by an entity; or the expected number of production or similar units estimated to be acquired from the asset by an entity. [2, 4]

3.1.2 Recognition of asset

Criteria for Recognition

The criteria for recognition of long-term tangible and intangible assets hold the promise of providing economic benefits for a period greater than the current year's financial statements which requires the transfer all risks and benefits of these assets to the company. Simultaneously, it must be possible to measure reliably the cost - assets must be measured reliably. Terms of the recognition follow the general definition of an asset specified in the conceptual framework. [1, 3]

The Conceptual framework, which is also known as the Framework for the Preparation and Presentation of Financial Statements, determines the concepts that underlie the presentation and preparation of financial statements, that is, the goals, characteristics, assumptions, definitions, and criteria that govern financial reporting. [5]

Any expenditure that meets the recognition criteria should be accounted as an asset. An entity decides which items will be monitored separately taking into account the nature of business and method of usage of individual assets as well. [4, 5]

Replacement of part of an asset is often associated with substantial expenditure, only adding the cost of the replacement part to the cost of the original asset constitutes certain logical flaws of the replaced part. If the cost of the replaced asset was not individually identifiable, then it can be used as an indication of the replaced item cost, which should be removed from the asset record.

During operations, an entity would obtain items that have individually insignificant value but will consider as an asset. Because it is very hard for entities to account for every such item, the standard allows the aggregation of such individually insignificant value items assuming similar nature of asset. [4]

The items which are aggregated should have the same technological or economical determination as those that are not significant. Such items are monitored and amortized as a whole and individual components of this unit, if necessary, for example in the liquidation or sale, are evaluated at the average price. [1]

An entity can also have an expenditure that will not directly accelerate the future economic benefits of any particular asset but would, at the same time, provide the flow of economic benefits of related property, plant, and equipment. [4]

Although the criteria can be used to spare parts and servicing equipment, they are generally performed as inventory and are disclosed in profit or loss account as and when consumed. Major spare part items and the spare parts and servicing equipment are regarded as property, plant, and equipment. [4]

Measurement at Recognition

An item of property, plant, and equipment that fulfills the criteria for recognition should be recognized initially at its cost.

Elements of cost

The Standard determines that cost includes:

- Purchase price, including import duties, nonrefundable purchase taxes, less trade discounts and rebates provided by the supplier;
- Costs that are directly attributable to bringing the asset to the location and condition that is necessary for it to be used by the entity for the given purpose;
- Initial estimates of removing, dismantling, and site restoration in case the entity has an commitment which incurs during acquisition of the asset or as a consequence of using the asset other than to produce inventories. [4, 5]

Directly attributable costs include:

- Employee benefits related with the construction or the acquisition of an asset
- Cost of site preparation
- Initial delivery and handling costs
- Installation and assembly costs
- Costs of testing, less the net proceeds from the sale of any product from test production
- Borrowing Costs (to the extent permitted by IAS 23- *Borrowing Costs*)
- Professional fees [5]

Not directly attributable costs which must be expensed in the income statement include:

- Preoperative expenses - costs of opening a new facility
- Costs of establishment a new product or service
- Promotional and advertising costs
- Costs of conducting business in a new location or with a new class of customer
- Training costs
- Administration and other general overheads
- Costs arising as an asset which can be used as planned, is yet to be brought into use, is idle, or is operating at below full capacity
- Initial operating losses
- Costs of reorganizing or relocating part or all of an entity's operations. [5]

The cost of an item of property, plant, and equipment is measured at the cash price equivalent at the date of its acquisition. The difference between the total price and the cash price equivalent is recognized as finance cost if the payment of an asset is deferred beyond normal credit terms. This cost is expensed over the credit period if the interest for capitalization is consistent with *IAS 23 Borrowing Costs*.

When an asset is acquired in exchange for another asset, the acquired asset must be measured at its fair value, unless the operation of exchange lacks commercial substance or the fair value can not be measured credibly, in which case, the acquired asset must be measured at the carrying amount of the surrendered asset on the exchange operation. [4, 5]

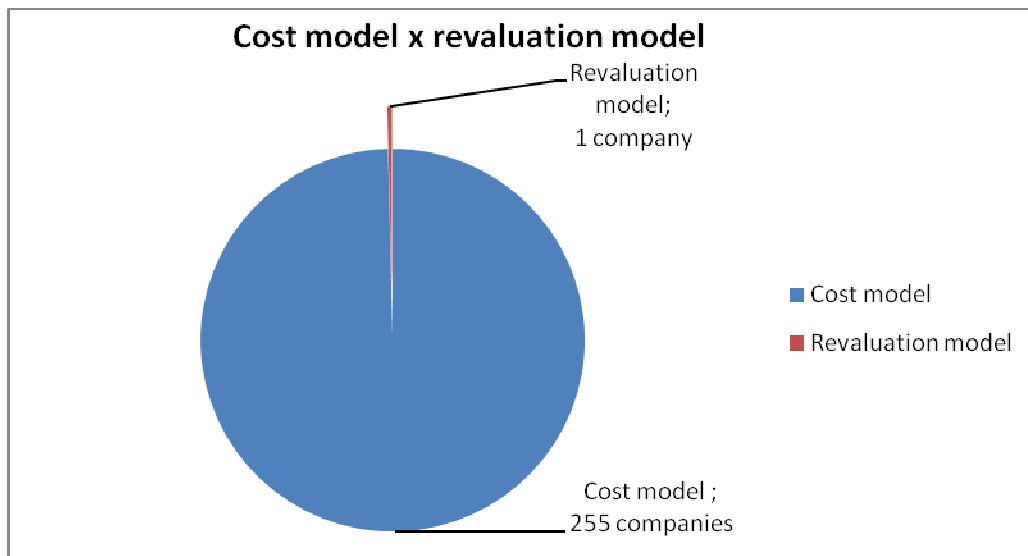
Measurement after Recognition

After the recognition of an item of property, plant, and equipment, the asset is measured with using the cost model or revaluation model. Regardless which model the entity uses the policy must be applied to all class of property, plant, and equipment. [6]

Cost model vs Revaluation model

According to the graph below, it is evident that in practice the revaluation model is rarely used. It is the consequence of considerable complexity of using the model and another reason is charging balance of the revaluation surplus. This analysis has been performed in Prague in 2007 by The University of Economics. The graph shows the fact that from 256 companies that reported assets under IFRS, just one uses the revaluation model. [6]

Scheme 1: Cost model vs Revaluation model



Source: [6]

IAS 16 proposes a possible classification of fixed assets into different classes according to common characteristics:

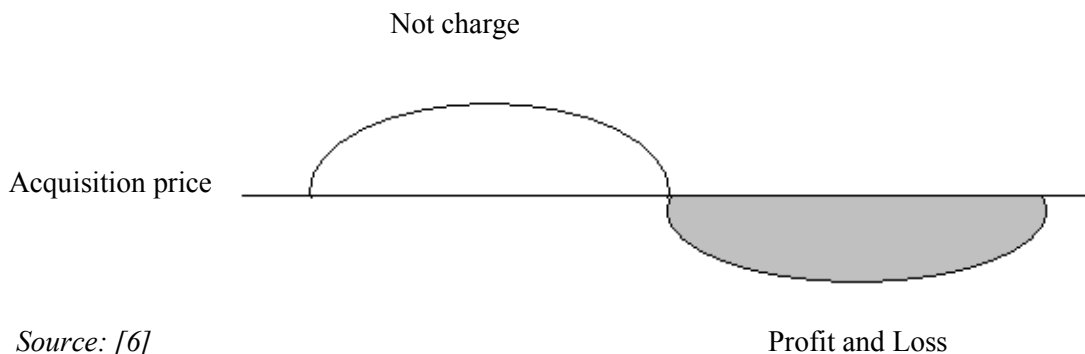
- a) land
- b) buildings
- c) machinery
- d) ships
- e) aircraft
- f) motor vehicles
- g) furniture and appurtenance
- h) office equipment [1]

Cost model

In cost model is necessary to carry the item of property, plant, and equipment after initial recognition at its cost less accumulated depreciation and impairment losses. The Cost model can be illustrated as follow:

The graph above shows that any increasing in acquisition price of an asset is not charged and any decreasing is recognized in profit and loss. [5, 6]

Scheme 2: Cost model



Source: [6]

Revaluation model

This model requires as asset and after its recognition is measured at a revalued amount, which is the fair value at revaluation date less subsequent accumulated depreciation and impairment losses.

The fair value is reliably measurable and the carrying amount should not differ significantly from fair value which was determined at the end of the reporting period therefore the revaluation must be performed precisely.

After initial measurement under the cost model the entity may change the model to revaluation model in later years only if the carrying values of the long-term assets are no longer reflective of the fair value of the item property, plant, and equipment in following years. If an asset is revalued, then the whole class of asset must be revalued as well. [4, 5]

An entity can treat any depreciation at the date of the revaluation in two methods when an asset is revalued:

- a) Proportionately restated with the change in the gross carrying amount of the item of property, plant and equipment. After the revaluation the carrying amount equals its revalued amount.
- b) The net amount is restated to the revalued amount of the asset. This method eliminates against the gross carrying amount and is used mainly for buildings. [4, 5]

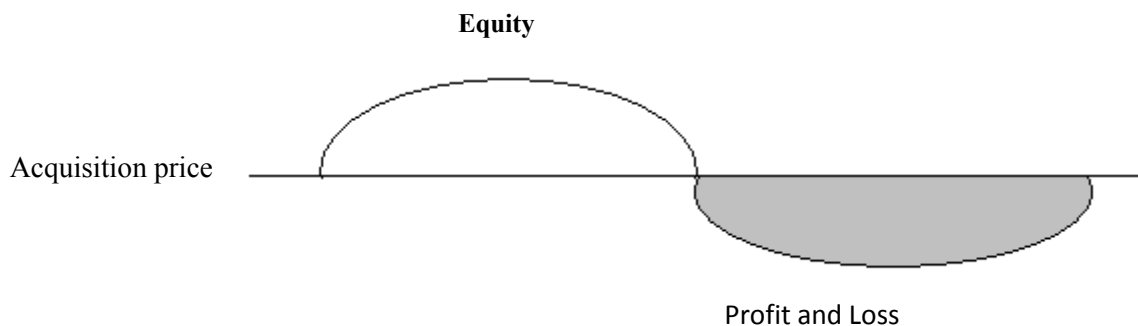
The revaluation reserve which is included in equity can be released to retained earnings in two methods:

- a) The surplus can be transferred to retained earnings if the asset is derecognized or disposed.
- b) The difference among the depreciation charged on the revalued amount and cost based can be converted from the revaluation surplus to retained earnings. Any transfer from revaluation reserve to retained earnings can not be recognized in profit and loss. [4, 5]

The Revaluation model can be illustrated as follow:

The graph below shows that any increasing in acquisition price of an asset is charged directly in equity and any decreasing is recognized in profit and loss.

Scheme 3: Revaluation model



Source: [6]

3.1.3 Depreciation

Depreciation of property, plant, and equipment represents the systematic and rational allocation of the depreciable amount of the asset to the expenses of the enterprise or to the purchase price of produced assets over the expected useful life of an asset. The costs of tangible assets are allocated by depreciation to the period that will have benefited from the usage of the asset. [1]

Depreciation commences when an asset is qualified to use and depreciation ceases when an asset is derecognized by sale or scrapping or its reclassification as Held for sale in accordance with *IFRS 5 - Noncurrent Assets Held for Sale and Discountinued Operations*. The depreciable amount also reflects the expected residual value of the assets. The residual value and the useful life can be annually controlled and the estimates revised in accordance with *IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors*. Temporary inactivity of the asset must be considered in determining the useful life, whereas the obsolescence on non usage of the asset may affect its life as well.

Depreciation accounting is determined as a strategy for cost allocation, it does not reflect changes in the market value of the asset. All tangible fixed assets must be depreciated. The only one exception could be land, which has infinite life. In spite of these facts the Standard states that the cost of the land includes estimated dismantlement or restoration costs, these are to be depreciated through the period of benefits obtained by expending those costs.

The Standard requires a component approach for depreciation. The approach indicates that each component of a composite asset with different timelife or different pattern of depreciation is accounted and depreciated separately. The depreciation charge of each part is charged to the income statement if it is not covered in the cost of producing another asset. [3]

Depreciation method

An entity can choose any method of depreciation. Diminishing balance method, the straight-line method, or units of production method can be used. The depreciation method should take into account the pattern in which the asset's future economic benefits

are expectedly consumed by the entity. The method of depreciation shall be reviewed at least once a year in the event that there has been a substantial change in expected pattern. The change in depreciation method is accounted for as a change in an accounting estimate in accordance with *IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors*. [3]

1. Depreciation methods based on time

a) Straight-line method

Depreciation expense is incurred evenly through the entire lifetime of the asset.

The periodic charge for depreciation is given as:

$$\frac{\text{Cost or amount substituted for cost less residual value}}{\text{Estimated useful life of asset}}$$

b) Double-declining balance depreciation (DDB)

$$\text{depreciation} = 2 \times \text{Straight - line rate} \times \text{Book value at beginning of year}$$

c) Sum-of-the-years' digits depreciation (SYD)

SYD is another method to accomplish a diminishing charge for depreciation.

$$(\text{Cost less salvage value}) \times \text{Applicable fraction}$$

Where applicable fraction is computed as:

$$\frac{\text{Number of years of estimated life remaining as of the beginning of the year}}{\text{SYD}}$$

$$\text{SYD} = \frac{n(n+1)}{2}$$

$n = \text{estimated useful life}$ [3]

2. Depreciation method based on actual physical use - Units of production method

This method is best applicable to those assets such as machinery with expected life which is most rationally defined in terms of productive output. [3]

Depreciation rate is calculated as follow:

$$\frac{\text{Cost less residual value}}{\text{Estimated number of units to be produced by the asset over its estimated useful life}}$$

3.1.4 Derecognition

If the carrying amount of an item of property, plant, and equipment is disposed of, or if future economic benefits are not expected from its use or disposal, it has to be derecognized. The result from disposal of an asset must be reported as a gain or loss and it will affect the accounting outcome. It is the difference between the net disposal proceeds, if any, and the net carrying amount of the asset. Such gain or loss must be included in profit and loss when the item is derecognized and is not to be classified as revenue. [3]

3.2 IAS 40 – Investment Property

The Standard deals with criteria for the accounting for real estate properties and its recognition, measurement, and disclosure.

IAS 40 defines an investment in land or a building, part of a building or both, if is held by the owner or a lessee in a finance lease for the main purpose of rental income or for capital appreciation or both. Investment property is also considered to be “passive” investments, in order to differentiate it from actively managed property such as plant assets which use of integrated asset with the rest of the entity’s operations. [3, 4]

The investment in real estate properties can bring two types of benefits:

- a) increase in value over time, or
- b) rentals if leased.[1]

Such property should be marked in the statement of financial position as investment property and the valuation of such assets can be at cost minus depreciation or at fair value. [4]

3.2.1 Key terms

Investment property. Land or building or part of a building or both, held by the owner or by the lessee under a finance lease to earn rentals and/or for capital appreciation, rather than for use in production or supply of goods and services or for administrative purposes or for sale in the ordinary course of business.

Examples of investment property are:

- Land held for long-term capital appreciation in contrast to short-term purposes for instance land held for sale in the ordinary course of business;
- Land held for an undetermined future use;
- Building owned by the reporting entity or held by the reporting entity under a finance lease and leased out under one or more operating leases;
- Unoccupied building held by an entity to be leased out under one or more operating leases;
- Property constructed or developed for future use as investment property. [3]

3.2.2 Recognition

Investment property can be recognized only when

- a) it is likely that the entity will have future economic benefits; and
- b) the cost of investment property may be reliably measured. [3]

3.2.3 Measurement

Measurement at Recognition

An investment property must be measured initially at cost which is fair value at the time of acquisition. The purchase cost includes transaction charges such as legal fees and property transfer taxes if incurred. [5]

Property held under an operating lease must be measured initially with using the regulations provided by *IAS 17, Leases*, at the lower of the fair value and the present value of the minimum payments of lease. A crucial thing is that the item at fair value is not the property itself but the lease interest.

Measurement after Recognition

An entity will choose the cost model or the fair value model for all its investment property. But if an entity will decide to classify investment property held under an operating lease, then the entity must select the fair value model for all its investment property or if the entity has investment property backing liabilities that pay a return linked to the fair value of the assets, the entity continues to have a choice of models for other investment property. [5]

Fair Value Model

The investment property can be measured at fair value. Any gains or losses incurred from changes in fair value must be recognized in the income statement in current period. These fair values should reflect the market conditions at the balance sheet date because there can occur significant differences if entity carries out at dates too far removed from the balance sheet date.

The lessee under finance lease is required to use only the fair value approach. If the fair value of the investment property that is under construction is not reliably measured then the entity measures the investment property at cost until the complete the construction. [3]

Cost Model

If an entity selects the cost model, it must measure all of its investment property in accordance with *IAS 16 – Property, Plant, and Equipment* but with except those classified

as held for sale in accordance with *IFRS 5 - Noncurrent Assets Held for Sale and Discontinued Operations*. [3]

Transfers

The Standard allows transfers of investment property from and to other type of assets, only when there is evidence that there is a change of use of that asset.

In some instances of an entity that uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount. This case does not change also the cost of that property for measurement.

If the investment property is carried under the fair value model, extremely different results follow with regard to recognition and measurement is recognized in the income statement. [3]

Disposals

Investment property can be disposed of when is sold or leased or derecognized when is retired. After that any gain or loss counted as the difference between the net disposal proceeds and the carrying amount is recognized in the income statement. [3]

3.3 IFRS 5 – Noncurrent Assets Held for Sale and Discontinued Operations

The IASB issued IFRS 5 to unify International Financial Reporting Standards with US GAAP. This Standard determines accounting for long-term tangible and other assets specified for disposal or requirements for the presentation and disclosure of discontinued operations as well. [4]

Companies should also reclassify noncurrent assets in the statement of financial position as “held-for-sale” if the entity has decided to sell an asset or disposal group within one year.

3.3.1 Key terms

Asset held for sale. A noncurrent asset recovered by selling the asset rather than usage.

Disposal group. A group of assets and possibly some liabilities that an entity plans to dispose of in a single transaction. [4]

3.3.2 Measurement of noncurrent assets held for sale

Assets classified as held for disposal are measured variously and presented separately from other current assets.

The following general principles would apply:

- a) Asset should be measured in accordance with the relevant standards before classification as held for sale.
- b) Measurement of noncurrent held-for-sale at the lower of the carrying amount and fair value less costs to sell. Cost to sell is the estimated cost to dispose for instance advertising cost or commission. Cost to sell is measured at present value which is reflected as a finance cost in profit and loss.
- c) Impairment losses occur as profit or loss or subsequent record of the asset or disposal group to fair value less cost to sell.
- d) Increases in fair value less cost to sell are recognized in profit or loss to the point that it is not in excess of cumulative impairment losses
- e) Noncurrent assets or disposal group should not be depreciated. [5, 3]

3.3.3 Changes in classification of held for sale

When criteria for an asset are not fulfilled, then the asset or disposal group discontinues to be held for sale so the noncurrent asset or disposal group should be valued at the lower of the carrying amount before classification as held for sale and its recoverable amount at the date of the decision not to sell. Any changes in the value should be stated in income from subsequent operations for the period. [3]

3.4. IAS 38 – Intangible assets

The Standard prescribes the recognition, measurement and the criteria of intangible assets which are not covered by other Standards.

Intangible asset is an identifiable, nonmonetary asset with economic life of greater than one year which have no physical substance but in some cases, an intangible asset can be included in a tangible asset for instance computer software. When the asset can be separable so it means that it could be sold or otherwise disposed of without simultaneously disposing of or diminishing the value of other assets held. In such situations, the entity must determine more significant element. [5, 3]

Intangible asset can be classified with the finite life which indicates limited period of benefit or with indefinite life which indicates no foreseeable limit of generation net cash flow for the reporting entity. [4]

Standard 38 applies to expenditure such as advertising, training, patents, marketing rights, copyrights, motion picture film, specialized know-how, computer software, licenses, import quotas, technical knowledge, franchises, market share, market knowledge, customer loyalty, customer lists, etc. [3, 5]

Standard 38 applies to all intangible assets except:

- deferred tax assets defined with accordance with IAS 12;
- leases fall covered under IAS 17;
- goodwill arising in a business combination within the purview of IFRS 3;
- assets arising from employee benefits is dealt with by IAS 19;
- financial assets are defined by IAS 39, IAS 27, 28, 31, and 39;
- intangible assets arising in insurance companies from contracts with policyholders in accordance with IFRS 4, nor to evaluation and exploration assets in the extractive industries under IFRS 6, nor to intangible assets classified as held-for-sale covered by IFRS 5. [3]

3.4.1 Key terms

Active market. Active market is a market in which the following conditions are met:

- a) the items traded in the market are homogeneous;
- b) willing sellers and buyers can be found at any time; and
- c) prices are available to the public.

Amortization. Amortization is the systematic allocation of the depreciable amount of an intangible asset on a systematic basis over its lifetime.

Cash generating unit. This unit is small identifiable group of assets that creates cash inflows from ongoing use, largely independent of the cash inflows related with other assets or its groups.

Development. The development is the application of research knowledges or other findings to a plan or design for the production of new or considerably improved materials, products, devices, processes, systems, or services before the start of commercial production or use. Development costs are capitalized.

Goodwill. Goodwill represents the future economic benefits resulting from other assets acquired in a business combination that are not individually identified and recognized.

Nonmonetary transactions. Nonmonetary transactions are such exchanges and nonreciprocal transfers that include little or none monetary items of assets or liabilities.

Nonreciprocal transfer. Nonreciprocal transfer represents the transfer of assets or services in one way, either from an entity to its owners or another entity, and vice versa. An entity's reacquisition of its outstanding stock is considered to be a nonreciprocal transfer.

Research. Research is the original and planned investigation performed with the prospect of gaining new scientific or technical knowledge and understanding. Research must be expensed. [3]

3.4.2 Recognition and its criteria

The requirements of recognition must be applied only if an intangible asset is acquired externally or generated internally. For the recognition of intangible assets is necessary to meet the definition formulated in conceptual framework.

The items which must be charged to expense are:

- Preopening, Start-up and preoperative costs
- Training costs
- Relocation and reorganizing costs
- Advertising and promotional costs

Internally generated items such as goodwill, brands or mastheads should not be recognized as intangible assets under IAS 38.

Three Important critical attributes for recognition of intangible assets are:

- 1) Identifiability
- 2) Control
- 3) Future economic benefits.

1) Identifiability

According the Standard an expenditure on an item of intangible asset must be separately identifiable to differentiate it from goodwill. An intangible asset is identifiable if:

- It can be separable from the entity and then sold, transferred, rented, licensed, or exchanged, either individually or as component of a whole); or
- Occurs from contractual or other legal rights, irrespective of if those rights are transferable or, if applicable separable from the entity, or other rights and obligations. [3]

The Standard provides this list of classes of intangible assets:

- Brand names;
- Computer software;

- Publishing titles;
- Patents, copyrights, and other industrial property rights, service and operating rights;
- Licenses and franchises;
- Recipes, designs, formulas, prototypes, models;
- Intangible assets under development.[3]

2) Control

The provisions of the standard require from the entity ability to control use of any intangible asset reported in statement of financial position. An another important factor here is not only the power to obtain future economic benefit but also whether the company can restrict the access of other entities to those benefit. This control usually results from legally enforceable rights such as copyrights or patents, but is not necessary because the control can be enforced in some other manner, for instance keeping something secret through employee confidentiality.

An entity should be careful in some cases connected with skills in its workforce because expending resources on training of staff not have to bring economic benefits due to employees' departure. [3]

3) Future economic benefits

An asset is recognized if there is possibility of future economic benefits, and the cost is measured reliably.

Future economic benefits asset can include:

- a) Revenue from the sale of products, processes or services;
- b) Cost savings; or
- c) Other benefits arising from the use of an asset. [5]

3.4.3 Measurement

Intangibles are acquired as the section of a business combination and the cost is their fair value at the date of acquisition and also must be recognized separately from goodwill. The asset must fulfill the requirements for recognition of Intangible assets. In some cases the equity should disclose such asset after the acquisition which fulfills the recognition criteria even though that was not initially included in the financial statement. [1]

Measurement of the Cost of Intangibles

Intangible assets are measured at cost and the cost of separately acquired intangibles includes:

- a) Purchase price of an asset which includes legal and brokerage fees, import duties, value added and other nonrefundable purchase taxes, less rebates and trade discounts;
- b) Directly attributable costs of preparing the intangible asset for use such as professional fees, employee benefits or other incremental costs.[3]

Whereas costs which can not be included are:

- administration costs;
- costs of conducting new business or cost of introducing new products or services;
- costs incurred in awaiting deployment;
- initial operating losses; or
- costs of redeployment of an intangible assets.

The balance and the cost (cash price) are considered as a finance charge over the finance period when the payment for asset is delayed beyond normal credit terms. [5]

Capitalization of costs occurs when an asset is ready to be placed in service. Any costs related with using or redeploying must be excluded from the cost of those assets so costs incurred at the time of capable of being used, but while it has yet to be placed into service, would not be capitalized but expensed. [3]

According to the standard the cost of an acquired asset as part of a business combination is its fair value at the acquisition date and if the asset is able to freely trade in an active market, then the subsequent quoted market price is the best measurement of cost. But in the case that asset has not an active market the cost is specified on the basis of amount paid for an intangible asset in an arm's-length transaction at the acquisition. [3]

When an entity can not reliably measure an asset acquired as a component of a business combination so then the intangible asset is not separately recognized, but rather is a part of goodwill. [3]

Measurement Subsequent to Acquisition

An entity can choose one of two models, cost model or revaluation model. The model must be used for each class of intangible asset. [4]

Cost model

After the initial recognition the asset is carried at cost less any subsequent amortization and impairment losses in accordance with *IAS 36 - Impairments of assets*. [4]

Revaluation model

Revaluation is made regularly at the end of reporting period. In Revaluation model the asset is carried at a fair value less any amortization and impairment losses if fair value may be determined by active market. In this model revaluation increases are directly credited to surplus under equity except in cases that the increase reverses a revaluation reduce previous recognition in the statement of comprehensive income. [4]

In a business combination can be difficult to estimate the fair value because of use comparable market transactions of quoted prices. In such cases the fair value is based on immeasurable variables and it can not be separated or there is no history of evidence of exchange transaction. [5]

If an entity acquires the asset in exchange to another intangible asset then it must be measured at its fair value. In case that the exchange lacks commercial substance of fair value causing inability to measure reliably the fair value, asset is measured at the carrying amount of the asset given up. Any difference between those acquired and carrying value of

the intangible asset given up will be qualify as a gain or loss. Though in situation in which does not exist commercial substance to the exchange, or fact that the fair values are not reliably measured, the value used is that of the asset given up. [3, 5]

Amorization

Intangible assets can be amortized by the same methods that are used for depreciation of long-term tangible assets. Thus, the Standard permits straight-line method, diminishing balance method, and units of production method.

3.5 IAS 36 – Impairments of assets

The main purpose of IAS 36 is to provide that assets are carried at no more amount than their recoverable amount. An entity is obliged to make provision for the impairment loss if the carrying value is higher than received amount due to use or by selling the asset. Other objective is to provide instructions on calculation of recoverable amount.

Test for impairment is is performed when there is an indication that asset can be impaired. In this situation the test is applied to cash-generating unit where is the carrying amount compared with the recoverable amount. As a result of the test is there impairment loss. Even if there is no reason of any impairment, the following assets can be tested:

- a) An intangible asset with an indefinite useful life;
- b) An intangible asset that is not available for use yet; or
- c) Goodwill acquired in a business combination. [4]

According the Standard the entity should determine the existence of impairments at each financial reporting date and then analyze that. On an annual basis these following internal and external signs can be given:

- Market value declines connected with the asset aging and use;
- Important negative changes in the economic, technological, market, or legal environments;
- Increases in the market interest rate or other rate of return related to market;

- Decrease in the state-owned entity's market capitalization which indicates that the carrying value exceeds the perceived value of the entity gated as a whole;
- There is significant evidence of physical damage of an asset or group of assets or its obsolescence;
- There are the significant internal changes in operations of the organization for example product discontinuation decisions or restructurings;
- Negative economic performance which is expected and gained from the internal reporting data;
- Stock price of the company is below book value Internal sources;
- Asset is the part of a restructuring or held for disposal as well. [3]

Certain assets can not be covered by the IAS 36, including:

- Inventories under IAS 2;
- Deferred tax assets under IAS 12;
- Assets arising from employee benefits that are covered under IAS 19;
- Financial assets dealt within the scope IAS 39;
- Biological assets carried at fair value under IAS 41;
- Assets held for sale under IFRS 5;
- Assets incurred from construction contracts in accordance with IAS 11;
- Investment property carried at fair value in accordance with IAS 40;
- Assets resulting from insurance contracts fall within the purview of IFRS 4.

IAS 36 is applied to:

- a) Property, plant, and equipment
- b) Intangible assets and goodwill
- c) Subsidiaries, associates, and joint ventures
- d) Investment property carried at cost [5]

3.5.1 Key terms

Impairment. Impairment of asset means that carrying amount of an asset is higher than its recoverable amount.

Impairment loss. Impairment loss represents the amount by which the carrying amount exceeds the recoverable amount.

Recoverable amount. Recoverable amount of asset or a cash-generating unit represents the higher of its fair value less net selling price and its value in use.

Value in use. Value in use is the discounted present value of estimated future cash flows expected to occur from the subsequent use of an asset or a cash-generating unit or it can occur from disposal at the end of its lifetime. [4]

3.5.2 Measurement and recognition of an impairment loss

An impairment loss is recognized when the recoverable amount is below the carrying amount of an asset and is charged as an expense in the income statement. It is recognized in profit or loss unless the asset is carried at a revalued amount so impairment loss is treated as a revaluation decrease. In the event that it is revalued asset with changes in value, is recognized directly in equity. When the impairment loss exceeds the carrying amount the entity must recognize a liability if it is the request of another standard.

Any depreciation after the recognition of impairment loss must be adjusted to reflect the revised carrying value of an asset and any adjustments to depreciation for future periods are necessary. [4, 5]

3.5.3 Determination and Calculation of a recoverable amount

The objective of the Standard is to recognize impairment when the economic value of an asset or cash-generating unit included of a group of assets is below its carrying value.

An entity could sell an asset if its net selling price which is fair value less costs of disposal, exceeds the value in use of an asset, and would continue to employ the asset if value in use was higher than salvage value.

If the fair value less value in use or costs to sell is more than the carrying amount, the entity does not have to calculate the other amount so the asset is not impaired. For example value of asset held for disposal is probably the net disposal proceeds so the future cash flows from following use are likely to be insignificant.

The recoverable amount is considered to be value in use when the fair value less costs to sell can not be determined because there is not active market for the asset.[4]

To determine the recoverable amount is necessary:

- a) To define the subject of valuation
- b) To determine fair value
- c) To determine value in use [1]

In the situation when an intangible asset has an indefinite useful life, it can be used a calculation of the recoverable amount of an asset obtained in the previous period only if the asset is part of a cash-generating unit whose value has not significantly changed since the last calculation of recoverable amount. The other condition is that the amount resulted from calculation significantly excess the carrying amount of an asset it would be improbable that the current calculation of the recoverable amount would show a value less than the carrying amount of an asset. [5]

3.5.4 Fair value less costs to sell /Net selling price

To determine fair value less costs to sell are given the following examples:

- a) Information about price from buying and selling agreement can be used.
- b) Price provided in a binding sale agreement is used after deducting the costs of disposal.
- c) The price in an active market can be used when the market price less the cost of disposal. Market price means current bid price or, if applicable the price is the latest transaction. [5]

3.5.5 Value in use

The calculating of value in use includes the following elements:

- It is necessary to estimate the future cash flows
- The present value of cash flows must be computed by application of an appropriate discount rate
- Any variations in amount or timing of future cash flows are possible
- The time value of money presented by the actual market risk-free rate of interest
- Other elements for example illiquidity reflected by market participants in pricing the future cash flows

Projections of cash flows should reflect the reasonable and supportable assumptions and the most recent forecasts and budgets related of asset in its current condition. The projections not include any cash flows related to financing the asset. [5]

3.5.6 Discount rate

The discount rate used in measuring value in use would be a pretax rate reflecting the specific risks and the present market assessments of time value of money. [5]

3.5.7 Cash-generating units

Cash-generating unit indicates the smallest group of assets which is identifiable that generates cash inflows independently of the cash inflows from other assets or groups of assets. [4]

An active marketer is the most important element to identify the cash-generating unit.

Value in use will be determined by estimating market price of these factors:

- a) The determination of cash-generating units should be consistent over time if an amendment is not supported by company conditions.
- b) The carrying value of cash generating unit is the sum of all its components.[1]

4. Discussion

The difference between Czech Accounting Standards and International Financial Reporting standards depends on approach. Czech accounting standards provide materials for tax returns and paying taxes as well. IFRS determines a different view of the company. Company reported according to IFRS is visible in terms of profitability and efficiency as a whole or in individual sections. At last the company with International Financial Accounting Standards is easier to comprehend to anyone who intends to make a deal with the company, to invest or to join it.

4.1 Depreciation

4.1.1 Example of depreciation according to IFRS

Partial-year depreciation is calculated in accordance with IAS 16.

Company X Co. is a calendar year entity. Company X acquired a machine with value of 20 000EUR. An estimated useful life is 4 years and residual value is 1 250EUR.

Depreciation is calculated by the following three methods: Straight line, Double-declining balance and Sum-of-year's digit method

The depreciation expense for each full year of the asset is computed as:

Straight line method

$$\frac{\text{Cost or amount substituted for cost less residual value}}{\text{Estimated useful life of asset}} = \frac{(20\,000 - 1\,250)}{4} = 4\,687,5\text{EUR}$$

Year 14 687,5EUR

Year 24 687,5EUR

Year 34 687,5EUR

Year 44 687,5EUR

Double-declining balance method

$$\text{Straight - line rate} = \frac{1}{\text{Estimated useful life}} = \frac{1}{4} = 0,25 = 25\%$$

DDB depreciation method = 2 × *Straight - line rate* × *Book value at beginning of year*

Year 1..... $DDB = (2 \times 25\%) \times 20\,000 = 10\,000$ EUR

Year 2..... $DDB = (2 \times 25\%) \times 10\,000 = 5\,000$ EUR

Year 3..... $DDB = (2 \times 25\%) \times 5\,000 = 2\,500$ EUR

Year 4..... $DDB = (2 \times 25\%) \times 2\,500 = 1\,250$ EUR

Sum-of-year's digit method

n = *estimated useful life*

$$SYD = \frac{n(n+1)}{2} = \frac{4(4+1)}{2} = \frac{20}{2} = 10$$

$$\text{Applicable fraction} = \frac{\text{Number of years of estimated life remaining as of the beginning of the year}}{SYD}$$

$$\text{Applicable fraction for 1. year} = \frac{4}{10} = 0,4$$

SYD method in 1.y is computed as follow:

$$(\text{Cost less salvage value}) \times \text{Applicable fraction} = (20\,000 - 1\,250) \times 0,4 = 500 \text{ EUR}$$

Year 1..... $18\,750 \times 0,4 = 7\,500$ EUR

Year 2..... $18\,750 \times 0,3 = 5\,625$ EUR

Year 3..... $18\,750 \times 0,2 = 3\,750$ EUR

Year 4..... $18\,750 \times 0,1 = 1\,875$ EUR

4.1.2 Depreciation according to Czech Accounting Standards

Wear or deterioration occurs over the use of the asset. Depreciation of assets expresses the level of wear and after deduction of any accumulated depreciation enables us to find out the real value of assets

According to Czech Accounting standards, the entity applies an accounting depreciation to reflect the economic benefits of assets, either based on time or performance. Asset is depreciated as the whole item over its estimated life.

a) Straight-line method

$$\text{Depreciation expense} = \frac{\text{Cost value}}{\text{Estimated useful life}} = \frac{20\,000 - 1\,250}{4} = 4\,687,5\text{EUR}$$

b) Progressive method

$$\text{Depreciation expense} = \frac{2C(t+1-i)}{t(t+1)}$$

C acquisition cost

t total amount of years of depreciation

i depreciation year

$$\text{Depreciation expense for 1.year} = \frac{2 \times 20\,000(4+1-1)}{4(4+1)} = 8\,000\text{EUR}$$

Year 18 000EUR

Year 26 000EUR

Year 34 000EUR

Year 42 000EUR

According to Table 1 is evident that the straight-line method in accordance with IFRS and Czech Accounting Standards is the same. Under the straight-line method the amount of depreciation is equal each year while the depreciation amount per year under methods of DDB, SYD covered by IFRS and progressive method under Czech accounting standards is decreasing.

Table 1: Comparison of depreciation methods

| | IFRS | | | CAS | |
|------------------------|---------------|--------|-------|---------------|-------------|
| Method of depreciation | Straight-line | DDB | SYD | Straight-line | Progressive |
| 1.year | 4 687,5 | 10 000 | 7 500 | 4 687,5 | 8 000 |
| 2.year | 4 687,5 | 5 000 | 5 625 | 4 687,5 | 6 000 |
| 3.year | 4 687,5 | 2 500 | 3 750 | 4 687,5 | 4 000 |
| 4.year | 4 687,5 | 1 250 | 1 875 | 4 687,5 | 2 000 |

4.2 Revaluation of building

Comparison in revaluation at fair value with other accounting standards

Certain differences in comparing valuation bases between Czech Accounting Standards and IAS/IFRS can be identified. According to Czech Accounting Standards there is not possible revaluation at fair value of long-term assets through the revaluation reserve. [2]

4.2.1 First method of revaluation

Company Y own building with useful time 40years with acquisition price of 25 000 000Kč. After 5 years the value of building is revalued.

a) To date 31.12.2010 the fair value is revalued at 23 000 000Kč

b) To date 31.12.2010 the fair value is revalued at 27 000 000Kč

Depreciation for one year: $25\,000\,000/40 = 625\,000\text{Kč}$

Total depreciation: $625\,000 \times 5 = 3\,125\,000\text{Kč}$

Net book value: $25\,000\,000 - 3\,125\,000 = 21\,875\,000\text{Kč}$

a) Fair value = 23 000 000Kč

$23\,000\,000 - 21\,875\,000 = 1\,125\,000\text{Kč}$

$1\,125\,000/21\,875\,000 = 0,0514 \rightarrow 5,14\%$

Net book value is increased about $1\,125\,000 \rightarrow 5,14\%$.

Depreciation: $3\,125\,000 \times 5,14\% = 160\,000\text{Kč}$

Buildings: $25\,000\,000 \times 5,14\% = 1\,285\,000\text{Kč}$

Acq.price after revaluation: $25\,000\,000 + 1\,285\,000 = 26\,285\,000\text{Kč}$

Total depreciation after revaluation: $3\,125\,000 + 160\,000 = 3\,285\,000\text{Kč}$

Net book value after revaluation: $26\,285\,000 - 3\,285\,000 = 23\,000\,000\text{Kč}$

Table 2: Accounting of first method of revaluation refer to a) Fair value = 23 000Kč

| | Credit | Debet |
|---------------------|-----------|---|
| 1 285 000 Kč | Buildings | |
| 160 000 Kč | | Accumulated Depreciation of buildings and constructions |
| 1 125 000 Kč | | Revaluation Reserve |

| Buildings | Accumulated depreciation |
|------------------------------------|--------------------------------|
| $\frac{25\ 000\ 000}{1\ 285\ 000}$ | $\frac{3\ 125\ 000}{160\ 000}$ |
| Revaluation Reserve | |
| 1 125 000 | |

b) Fair value = 27 000 000Kč

$$27\ 000\ 000 - 21\ 875\ 000 = 5\ 125\ 000\text{Kč}$$

$$5\ 125\ 000 / 21\ 875\ 000 = 0,234 \rightarrow 23,4\%$$

Net book value is increased about 5 125 000 → 23,4%.

$$\text{Depreciation: } 3\ 125\ 000 \times 23,4\ \% = 725\ 000\ \text{Kč}$$

$$\text{Buildings: } 25\ 000\ 000 \times 23,4\ \% = 5\ 850\ 000\ \text{Kč}$$

Acq.price after revaluation: $25\ 000\ 000 + 5\ 850\ 000 = 30\ 850\ 000\text{Kč}$

Total depreciation after revaluation: $3\ 125\ 000 + 725\ 000 = 3\ 850\ 000\text{Kč}$

Net book value after revaluation: $30\ 850\ 000 - 3\ 850\ 000 = 27\ 000\ 000\text{Kč}$

Table 3: Accounting of first method of revaluation refer to b) Fair value = 27 000 000Kč

| | Credit | Debet |
|---------------------|-----------|---|
| 5 850 000 Kč | Buildings | |
| 725 000 Kč | | Accumulated Depreciation of buildings and constructions |
| 5 125 000 Kč | | Revaluation Reserve |

| Buildings | Accumulated depreciation |
|---------------------|--------------------------|
| 25 000 000 | 3 125 000 |
| 5 850 000 | 725 000 |
| <hr/> | |
| Revaluation Reserve | |
| | 5 125 000 |

4.2.2 Second method of revaluation

Company Y own building with useful time 40years with acquisition price of 25 000 000Kč. After 5 years the value of building is revalued.

a) To date 31.12.2010 the fair value is revalued at 23 000 000Kč

b) To date 31.12.2010 the fair value is revalued at 27 000 000Kč

Depreciation for 1 year: $25\,000\,000/40 = 625\,000\text{Kč}$

Total depreciation: $625\,000 \times 5 = 3\,125\,000\text{Kč}$

Residual value: $25\,000\,000 - 3\,125\,000 = 21\,875\,000\text{Kč}$

After the revaluation the difference between the total amount of depreciation before and after the revaluation should be charged. The difference is charged to account Retained earnings.

a) Fair value = 23 000 000Kč

$$23\,000\,000 - 21\,875\,000 = 1\,125\,000\text{Kč}$$

Table 4: Accounting of second method of revaluation refer to a) Fair value = 23 000 000Kč

| | Credit | Debet |
|--------------|--------------------------|---------------------|
| 1 125 000 Kč | Accumulated depreciation | Revaluation reserve |

| | |
|------------|--------------------------|
| Buildings | Accumulated depreciation |
| 25 000 000 | 3 125 000 |
| | 1 125 000 |
| | |

| |
|---------------------|
| Revaluation Reserve |
| 1 125 000 |
| |

b) Fair value = 27 000 000Kč

$$27\,000\,000 - 21\,875\,000 = 5\,125\,000\text{Kč}$$

Table 5: Accounting of second method of revaluation refer to b) Fair value = 27 000 000Kč

| | Credit | Debet |
|---------------------|---|---------------------|
| 5 125 000 Kč | | Revaluation Reserve |
| 3 125 000 Kč | Accumulated Depreciation of buildings and constructions | |
| 2 000 000 Kč | Buildings | |

| | |
|--------------------------------|-------------------------------|
| Buildings | Accumulated depreciation |
| <u>25 000 000</u> 2 000 000 | <u>3 125 000</u> 3 125 000 |
| Revaluation Reserve | |
| 5 125 000 | |

5. Conclusion

Growth of the world economy eliminates national borders which causes the increasingly global character. Through this process there is need to unify all information systems, communications, accelerate and improve the comparability of general clarity and reliability of economic information. For this reason international accounting harmonization occurs including IAS/IFRS, US GAAP and Directives of European Union.

The process of harmonization of International Accounting Standards IAS/IFRS and Czech Accounting Standards was started in the past via the following amendments - the Accounting Act No 563/1991 Coll. and related laws and regulations.

From the comparison of the two accounting systems given in discussion is apparent that the harmonization process has not yet been completed and between both accounting systems exist essential conceptual differences. Because of pressure from the European Union and the IASB, it is probable that this process will continue.

According to IAS/IFRS an item considered as an asset should meet the definition given in the Conceptual framework. Conceptual framework sets out the basic accounting principles and assumptions, defines each categories of accounts, the default options of measurement and the concept of keeping corporate nature.

Significant differences between accounting standards involve long-term tangible and intangible assets. Examples of such differences cover especially recognition, measurement and depreciation.

Depreciation is calculated under Straight-line method, DDB a SYD in accordance with IFRS while within the scope of Czech Accounting Standards depreciation is computed under Progressive method and Straight-line method. However, all methods are based for the same purpose - expression of the wear level and after deducting of accumulated depreciation finding out the real value of assets.

Under Czech Accounting Standards is used only Cost model for the revaluation of long-term tangible and intangible assets, whereas under IFRS are used both, cost model and the revaluation model.

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