

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Trade and Accounting**



**Abstract of Diploma Thesis**

**Comparison of Accounting system in the Czech  
Republic and the Kyrgyz Rep**

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## **Summary**

Involvement of companies in international markets, globalization of capital markets led to understanding of the necessity of harmonization of accounting systems and bringing national accounting and reporting practices in line with International Reporting Standards, a single set of high standards, recognized all over the world.

The Czech Republic, in its process of EU integration has accumulated a good experience of accounting harmonization and solving implementation problems that come with meeting up these International Financial Reporting Standards. The comparative analysis of the organization of accounting systems and accounting practices of companies in the Czech Republic and the Kyrgyz Republic allows the author to combine the experiences of both countries for the development of economic cooperation and for building a stronger, mutually beneficial relationship in today's globalizing world.

The comparison shows the main similarities between accounting systems of the Czech Republic and the Kyrgyz Republic regarding the prevailing government regulation of accounting and the impact of taxation on principles applied in accounting systems. Based on the results of the comparative analysis suggestions are provided to improve accounting system of Kyrgyzstan.

**Keywords:** Accounting system, Financial Statements, legal frame, Balance sheet, Income Statement, Notes, Cash-flow statement, International Financial Reporting Standards, Income tax.

## **Aims**

The aim of the diploma thesis is to compare the legal framework of Czech and Kyrgyz accounting systems, the presentation, form and content of financial statements, analyze similarities and differences with International Financial Reporting Standards (IFRS) and apply theoretical knowledge on case studies.

With regard to the aim of the diploma thesis, the goals are to:

- study classification of national accounting systems and determine the place of the Czech Republic and the Kyrgyz Republic in the accounting models;
- summarize the legal framework of accounting and reporting in the Czech Republic and the Kyrgyz Republic;
- analyze comparability of financial statements of the companies of the Czech Republic and the Kyrgyz Republic?
- conduct a comparative analysis of conceptual principles of accounting and reporting and their accordance to International Financial Reporting Standards.
- provide recommendations to improve the national accounting systems

## **Research questions**

What are the features of accounting systems of the Czech Republic and the Kyrgyz Republic?

What are the similarities and differences in accounting policies in the Czech Republic and the Kyrgyz Republic?

What is the progress of the countries in accounting harmonization?

What are the similarities and differences in requirements to financial statements in the Czech Republic and the Kyrgyz Republic?

Does the financial statements of the companies from the Czech Republic and the Kyrgyz Republic allow the users to compare their financial indicators?

What are significant differences between Czech and Kyrgyz conceptual frameworks, rules and methods of accounting that are revealed based on the comparison of accounting practices of the companies?

What are the differences between accounting principles of the companies and International Financial Reporting Standards?

## **Methodology**

Comparative analysis, synthesis, deduction, classification are used as the main methodological tools. Data will be collected from the relevant legal framework, specialized publications, other written and online sources. The primary source of data, used to compare applied accounting, are financial statements of LLC “Skarab” (Czech Republic) and LLC “Avtomash-Radiator” (Kyrgyz Republic). Accounting practices of the companies will be compared and fulfillment of legal requirements will be assessed, followed by synthesis and combining of findings and results of the practical part. Deduction will allow making conclusions and providing recommendations for the companies.

## **Findings**

The tendency for cooperation of the state authorities and representatives of the professional agencies in the development and the implementation of accounting standards positively characterizes the Czech accounting system and is suggested to be applied in the Kyrgyz Republic. Thus, the professional accounting bodies should become the active participants in the development and adoption of accounting projects to increase confidence in the accounting rules and their quality.

Among the requirements to the financial information provided by the financial statements, the most important are fair presentation and preference of substance over form. According to International Financial Reporting Standards, true and fair presentation of information is provided by the adherence to certain requirements to accounting information, i.e. the qualitative characteristics, that make the information useful. In the Czech Republic and the Kyrgyz Republic, the true and fair presentation of information has been implemented successfully and is referred to a clear and proper compliance to the accounting and reporting rules and procedures prescribed by the relevant legal requirements. However, principle of substance preference to form, when economic reality is preferred to legal formalities in accordance with International Financial Reporting Standards, is not included in Czech Accounting Standards. One of the major obstacles to the implementation of this principle is preference of legal forms of transactions. The property of the company is recognized as its asset only if the company gets the ownership rights for the property. With this regard, the Czech

Republic failed to harmonize accounting of leases, which constitute the important part of International Financial Reporting Standards. Czech Accounting standards do not distinguish operational and financial leases, thus it ignores the commercial substance of the transaction.

The preparation of financial statements in accordance with International Financial Reporting Standards implies the freedom of choice of accounting methods. But in the Czech Republic and the Kyrgyz Republic individual statements prepared in accordance with the Czech Accounting Standards are standardized and affected by tax legislation. In addition

The requirements of International Financial Reporting Standards regarding the components of the financial statements has been successfully implemented in the Kyrgyz Republic. Under Czech Accounting Standards, a statement of cash-flow and a statement of change in equity are not the primary statements and the companies may choose to prepare them or not. In addition, the accounting practices of the companies of the Czech Republic and the Kyrgyz Republic demonstrate different models of classification of operating expenses and revenue: by function and by nature respectively. Both classifications are allowed in accordance with International Financial Reporting Standards.

The comparative analysis in the framework of this diploma thesis has been useful for the exchange of convergence experience aimed at eliminating the significant differences between the national accounting systems that will promote mutually beneficial cooperation in today's globalizing world.

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