

Jihočeská univerzita
v Českých Budějovicích
University of South Bohemia
in České Budějovice

FINANCIAL STATEMENTS

- Study Text



PURPOSES AND CHARACTERISTICS OF FINANCIAL STATEMENTS

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Operační program Výzkum, vývoj a vzdělávání



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1 FINANCIAL STATEMENTS IN CZECH REPUBLIC

Financial statements are the primary means of communicating important accounting information users. It is helpful to think of these statements as model of the business enterprise because they show the business in financial terms. As is true of all models, however, financial statements are not perfect pictures of the real thing, but rather the accountant's best effort to represent what is real.

For large corporations, these statements are often complex and may include an extensive set of notes to the financial statements and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements.

1.1 Methodology

Methodology, measure and way of preparation of financial statements for entities that are entrepreneurs regulate:

1. Act no. 563/1991 Coll., On Accounting
2. Order no. 500/2002 Coll.
3. Czech Accounting Standards for Businesses

ad 2) provides:

- scope and method of preparation of financial statements, including ordering, labelling and content definition of certain balance sheet items (balance), profit/loss statement, explanatory and supplementary information in the notes to the financial statements, cash flow statement and statement of changes in equity
- organizing, labelling and content of the consolidated financial statements, including the consolidation methods and procedures including entities in the consolidated group.

Reflection of conceptual frame of management in accounting entity must be included in **internal rules** (directives), e.g.:

- list of accountant books, framework attribute and abbreviation
- account classification
- circulation accountant corroboration
- nesting (custody), archiving and shredding of accounting corroboration
- plane of depreciation
- methods of appraisalment
- fundamentals behalf formation calculation, budget, etc.

For among **basic qualitative claims** to information shows in financial statements belongs to:

- authenticity
- comparability
- comprehensibility
- relevance.

Species of financial statement:

- ordinary (annual) final statement - making to last day of accounting period
- extraordinary final statement - in another case defined by § 17 and § 19 Act Nr. 563/1991 Coll.
- interlocutory final statement - special case depending on accounting entity during accounting period

Variants of financial statements:

- full range - obligatorily submit to enterprises that have the obligation to audit the financial statements and to publish the data from the auditor; other businesses on a voluntary basis
- simplified range - items labelled with Latin alphabet and Roman numerals (not Arabic numerals)

The financial statements shall **include** at least the following:

- a business name or other name of the entity and the registered office of the entity
- identification number
- legal form of the entity
- subject of business or other activities
- balance sheet day
- the moment of preparation of the financial statements
- signature of the statutory body of the entity

Preparation of financial statements - **deadlines**:

- at the latest by the end of the immediately following accounting period after the balance sheet date (according to the Act of Accounting)
- no later than 6 months after the end of the accounting period (according to Act of corporates - for commercial companies and cooperatives - see approval by the statutory body)
- to compile an annual report no later than 4 months (joint-stock company - trading with securities)

1.2 Composition of financial statement

The full format assembles companies, that are bound checking assessable by auditor (§ 20 Act Nr. 563/1991 Coll.). It composes:

- **Balance sheet**
- **Profit/loss Statement (Income statement)**, with version of expenses:
 - Type structure
 - used by the most companies. We can characterize it as specific type of costs that were spent for specific purpose.
 - for example: consumption of material, goods, energy, payroll, etc.
 - Purpose structure (by function)
 - this classification specifies the relation of costs to their origin
 - they are divided according to the relation to the following processes:
 - technological costs (incur only during technological production of a given product),
 - direct and indirect costs.
- **Notes (supplement, annex) to statements**
- **Statement of cash flow** – mandatory only for the selected entity
- **Statement of change in shareholders' capital** – mandatory only for the selected entity

Annual report of a company

Companies which must accomplish provide audit must have also annual report. It is visiting-card of company and contains many graphical component units. Purposes of report is round off, balanced and complex give notice about development, capacity and activities of company. The abstract of report is liable to audit.

Annual report contains information about:

- financial situation

- future progression
- activities in research (incl. protection of environment), etc.

| Type of entity (category) | Range of financial statements: BS, P/L | Obligatory of Statements: CF, Eq. | Obligatory of audit, annual report | Publication Method |
|------------------------------|---|-----------------------------------|------------------------------------|---|
| Micro: | | | | |
| • with audit | BS- simple, basic version, P/L - full | NO | NO | BS + Notes §39 |
| • without audit | BS – full P/L - full | NO | NO | Notes §39 + §39a Annual report, with complete FS with audit |
| Small: | | | | |
| • with audit | BS – simple, widespread version P/L - full | NO | NO | BS + Notes §39 |
| • without audit | BS – full P/L – full | NO | YES | Notes §39 + §39a Annual report, with complete FS with audit |
| Middle | BS – full P/L – full | YES | YES | Notes §39 + §39b Annual report, with complete FS with audit |
| Large: | | | | |
| • public interest entity | BS – full P/L – full | YES | YES | Notes §39 + §39b + §39c Annual report, with complete FS with audit |
| • Issuer of a stock exchange | Full (IFRS/IAS) | YES | YES | Notes §39 + §39b + §39c Annual report, with complete FS with audit |
| • others | BS – full P/L – full | YES | YES | Notes §39 + §39b + §39c Annual report, with complete FS with audit |

1.3 Audit of final statements

Although the legal statutes may differ from country to country, an audit of financial statements are usually, but not exclusively required for investment, financing, and tax purposes. These are usually performed by independent accountants or auditing firms. Results of the audit are summarized in an audit report that either provide an unqualified opinion on the financial statements or qualifications as to its fairness and accuracy. The audit opinion on the financial statements is usually included in the annual report.

Auditing is regulated by Act on Auditors from 2009, as amended (93/2009 Coll.). This act, among others, determines the auditor's obligation to perform the audit in compliance with International standards on auditing. Act on Auditors also regulates the position of the Chamber of Auditors of the Czech Republic, competences of the Council for public supervision over an audit or establishment of an Audit Committee for public interest companies.

Act on Accounting (Article 20) regulates the obligation to have annual financial statements audited by a statutory auditor. The following entities must have their financial statements audited:

- a) accounting units, where this obligation is required by other regulation;
- b) large and medium sized entities;
- c) small entities, which are joint-stock companies or trustee funds and have exceeded at least one of the following criteria for the current and immediately preceding period:
 - net annual turnover of CZK 80 million;
 - total assets of CZK 40 million;
 - average recalculated number of 50 employees;
- d) other small entities that have, for the current and immediately preceding period, met or exceeded at least two of the three criteria stated

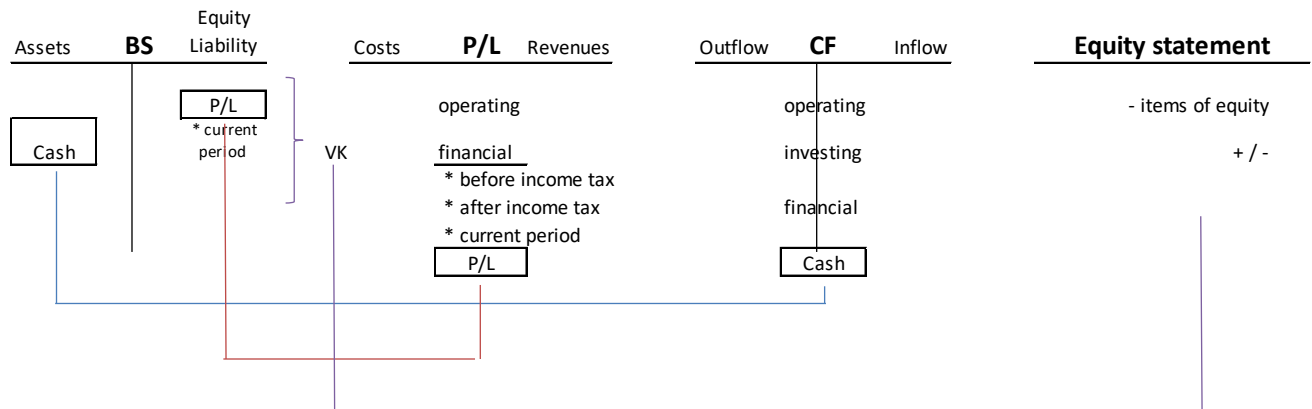
While the criteria for mandatory audit remain the same, there is a change in their calculation. Total assets category is newly represented by a net instead of a gross amount. In terms of turnover, implicit change was implemented by moving activations items and changes in inventory from own business from revenues to costs. Such calculation used for 2016 will be applied also for the previous period.

Annual reports containing audited financial statements must also be audited by an auditor. Newly, effective for all audit reports prepared after 3 December 2015, the auditor has to report on the fact, that information included within the annual report that relates to information included in the audited financial statements is stated in all material respects consistently with the financial statements and that the annual report has been prepared in accordance with the accounting regulation and does not contain material misstatements of fact. As Corporations Act does not require the report on relations to be specifically reviewed by the auditor, the auditor reviews the report on relations only as part of their review of the annual report. In addition, the auditor also verifies the consistency of the consolidated annual report with the consolidated financial statements.

The amendment of Act on Accounting from September 2015 also requires the auditor to issue only one report, where they opine on the true and fair presentation of the financial statements and the consistency of the annual report with the audited financial statements.

All entities with a compulsory audit must have an auditor approved by its general body. If the entity does not have a general body or its general body does not determine the auditor, then the auditor is determined by the entity's Supervisory Board. The entity can only conclude a contract on a compulsory audit if an auditor is appointed as described above, and only after an appointment to this role.

1.4 Basic links between the statements



Formal rules for reporting:

- data in CZK, thousands (or millions → Assets netto > CZK 10 billion)
- the basic links between the statements must be payable (see the diagram)
- not to skip the blank lines, not to write zeroes
- it is possible to further subdivide the content according to the annexes to the implementing decree
- Arabic numerals can be merged (if not significant, merge included in attachment)
- can be compensated - see § 58