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Remember to Publish Financial Statements

Publishing financial statements or the annual report ranks among an entity's regular duties. This article will summarise the essential requirements in this area.

Who is obliged to publish accounting information?

The methods of publishing accounting information are governed by Section 21a of the Accounting Act. The obligation to publish financial statements or the annual report rests only with reporting entities incorporated in the Public Register or to those in respect of which the obligation is stipulated by a special legal regulation. The obligation to publish financial statements or the annual report from 1 January 2016 also applies to Societies, Foundations, Institutions, Associations of Apartment Unit Owners and Public Service Organisations. The Public Register is maintained by the Registry Court in an electronic form.

How is the information published?

The reporting entities incorporated in the Public Register publish relevant documents by filing them in the Collection of Deeds of the Public Register (the "Collection of Deeds"). The documents are to be sent to the relevant Registry Court in an electronic form in the PDF format. Each deed is filed as a single PDF document. One deed thus cannot be divided into several documents, nor is it possible to combine multiple deeds into a single PDF document. Documents may be sent to the Registry Court via a data box, e-mail, in the form of on-line filing, via a web application and on technical data media. More information is available [here](#).

The Accounting Act provides an exemption for certain reporting entities that submit the annual report in the Collection of Deeds via the Czech National Bank.

What information is published?

Reporting entities are obliged to publish the following documents by submitting them to the Collection of Deeds:

- **Financial Statements** (ordinary, extraordinary and consolidated) or a summary statement of assets and liabilities (in the case of single-entry bookkeeping);
- **Annual Report** or a similar document if its preparation is required by the Accounting Act or a special legal regulation. Pursuant to Section 21 of the Accounting Act, the preparation of the annual report is required of the reporting entities the financial statements of which must be subject to audit.

In respect of financial statements for the period starting in 2016 or later:

- Reporting entities are **also obliged to publish a Report on Payments to Governments** and a consolidated report on payments to governments. The reports are prepared only by large reporting entities engaged in the mining and lumbering industries;

- **Small and micro reporting entities** that are not subject to mandatory audit may prepare a summarised version of financial statements and **do not need to publish the profit and loss account**. Therefore, they are only obliged to publish the balance sheet and the notes to the financial statements.

The financial statements may be filed as part of the annual report.

Pursuant to Section 66 (c) of the Registers Act, the Collection of Deeds also contains **Proposals for the Distribution of Profit** or the settlement of loss and their final wording (unless they form part of the financial statements).

Reporting entities are to publish the financial statements in the scope in which they prepared them. Reporting entities which are obliged to subject their financial statements to audit publish them in the scope and wording in which they were audited by the auditor.

When is the information to be published?

- a. **The reporting entities which are obliged to subject their financial statements to audit** are to publish their financial statements and annual report:
 - After they have been audited by the auditor;
 - After they have been approved by the relevant body;
 - Within 30 days from meeting the two conditions stated above (unless special legal regulations stipulate otherwise);
 - No later than within 12 months from the balance sheet date of the financial statements to be published regardless of whether the financial statements were approved in the stated manner.

The reporting entities are also obliged to publish the Auditor's Report and, if applicable, the information stating that the accounting records have not been approved. In addition, they must not publish previously unaudited information in a manner that might mislead the user into believing that it had been audited.

- b. **The reporting entities which are not obliged to subject their financial statements to audit** are to publish their financial statements as well as annual report no later than within 12 months from the balance sheet date of the financial statements to be published. Given the unclear guidance in the amendment to the Accounting Act, certain lawyers believe that the obligation to publish the financial statements or annual report within 30 days from their approval by the relevant body also applies to the reporting entities that are not obliged to have their financial statements audited by independent auditors.



How is the selected information of the financial statements presented?

In the situation where the reporting entity only presents selected information from its financial statements, the reporting entity is to state that only selected details from the financial statements are disclosed and where the financial statements are kept. The auditor's report on the financial statements is not appended to the selected information; only the type of auditor's opinion on the financial statements and reference to any matters specifically emphasised by the auditor are disclosed.

What are the sanctions for breaching the obligations?

The sanctions for breaching the obligation to publish accounting information are stipulated by the Accounting Act as well as the Registers Act.

The Accounting Act from 1. 7. 2017 considers the violation of the obligation to duly submit the financial statements, annual report or report on payments to governments to the Collection of Deeds to be an **offence** on the part of the reporting entity.

The sanction pursuant to Section 37a is a fine of up to 3% of the total value of assets. in the first instance,

the administrative offences of this sort are heard by the tax authority.

Pursuant to Section 72 (2) of the Registers Act, if the relevant document is not filed in the Collection of Deeds, the Registry Court will call on the incorporated entity to submit the document without unnecessary delay. If it fails to respond to the call, a disciplinary **penalty of up to CZK 100 thousand** may be imposed. However, if the incorporated entity repeatedly fails to meet its obligation to submit the required documents or if the failure to do so has serious consequences for third parties and if there is a legal interest in it, the Registry Court may, of its own motion, initiate the proceedings for the **dissolution of the incorporated entity including its liquidation** pursuant to Section 105 of the Registers Act. However, should this be the case, the Registers Court will notify the incorporated entity of this and will provide it with a reasonable deadline for remedying the deficiencies.

Furthermore, pursuant to Section 106 (2) of the Registers Act, the member of the statutory body of the legal entity which failed to meet its obligations pursuant to Section 105 of the Registers Act is in **breach of due managerial care**.



IASB has published a revised Conceptual Framework

On 29 March 2018, the International Accounting Standards Board (IASB) published its revised 'Conceptual Framework for Financial Reporting'.

The new **Conceptual Framework** does not constitute a substantial revision of the document as was originally intended when the project was first taken up in 2004. Instead the IASB focused on topics that were not yet covered or that showed obvious shortcomings that needed to be dealt with.

Included are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure.

The Conceptual Framework does not have a stated effective

date and the Board will start using it immediately.

Together with the revised Conceptual Framework, the IASB has also issued **Amendments to References to the Conceptual Framework in IFRS Standards**. The document contains amendments to 14 standards and interpretations.

The amendments are effective for annual periods beginning on or after 1 January 2020.

We will bring more information about new Conceptual Framework in the next issue of our Accounting News.

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Amendments to IFRS 9 endorsed for use in the EU

On 22 March 2018, **Amendments to IFRS 9 *Prepayment Features with Negative Compensation*** were endorsed by the European Commission for use in the European Union. The EU effective date is the same as the IASB's effective date (annual periods beginning on or after 1 January 2019).

The Amendments to IFRS 9 were issued by the IASB in October 2017 to address the concerns about how IFRS 9 *Financial Instruments* classifies particular prepayable financial assets.

Changes

The amendments in *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) are:

1. Changes regarding symmetric prepayment options

Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain).

Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment

must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

2. Clarification regarding the modification of financial liabilities

The amendments also contain (in the Basis for Conclusions) a clarification regarding the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. The IASB clarifies that an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortised cost amount.

Effective date and transition requirements

The amendments are to be applied retrospectively for fiscal years beginning on or after **1 January 2019**, i.e. one year after the first application of IFRS 9 in its current version. Early application is permitted so entities can apply the amendments together with IFRS 9 if they wish so. Additional transitional requirements and corresponding disclosure requirements must be observed when applying the amendments for the first time.

More information about Amendments to IFRS 9 can be found in our [Accounting Newsletter from November 2017](#). The full version of the Amendments is available [here](#).

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IFRIC 22 endorsed for use in the EU

On 28 February 2018, IFRIC 22 *Foreign Currency Transactions and Advance Consideration* was endorsed by the European Commission for use in the European Union. The EU effective date is the same as the IASB's effective date (annual periods beginning on or after 1 January 2018).

IFRIC 22 was issued by the IASB in December 2016 to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

Scope of the interpretation

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

Conclusions

- The date of the transaction for the purpose

of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

- If there are **multiple payments or receipts in advance**, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Transition

On initial application, entities apply the interpretation either retrospectively or prospectively.

More information about IFRIC 22 can be found in our [Accounting Newsletter from January 2017](#). The full version of the Interpretation is available [here](#).

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ESMA publishes a report on the activities of accounting enforcers and their findings within the EU in 2017

On 3 April 2018, the European Securities and Markets Authority (ESMA) published a report on the enforcement and regulatory activities of accounting enforcers within the European Union in 2017.

ESMA is an independent EU authority that was established on 1 January 2011. ESMA's mission is to enhance the protection of investors and promote stable and well-functioning financial markets in the European Union (EU).

ESMA and the accounting enforcers in the EU are regularly examining compliance of financial information provided by listed issuers on regulated markets with the applicable financial reporting framework (IFRS).

In 2017, European enforcers examined the financial statements of about **1,100 issuers** representing an average examination rate of **19% of all IFRS issuers** with securities listed on regulated markets (2016: 21%). These examinations resulted in 328 actions taken to address material departures from IFRS (2016: 311). As in 2015 and 2016, the main deficiencies were identified in the areas of financial statements presentation, impairment of non-financial assets, and accounting for financial instruments.

In 2017, ESMA and European enforcers evaluated the level of compliance with IFRS in the areas identified as common

enforcement priorities for **2016 annual IFRS financial statements** on a sample of 204 IFRS financial statements examined by European enforcers. This assessment related to:

- Presentation of financial statements (IAS 1);
- Distinction between equity instruments and financial liabilities (IAS 32); and
- Transitional disclosures of the expected impact of IFRS 9 *Financial Instruments* in the financial statements of non-financial institutions.

Furthermore, ESMA, together with European enforcers, identified a set of common enforcement priorities highlighting topics significant for European issuers when preparing their **2017 IFRS financial statements**. ESMA included:

- Disclosure of the expected impact of implementation of major new standards in the period of their initial application (IFRS 9, IFRS 15 and IFRS 16);
- Specific recognition, measurement and disclosure issues of IFRS 3; and
- Specific issues relating to IAS 7 such as reconciliation of liabilities arising from financing activities.

ESMA and European enforcers furthermore note that other issues such as the presentation of financial performance, the disclosures on the impact of Brexit and the disclosure of non-financial information and APMs will also be assessed.



ESMA also published a fact-finding exercise on disclosure of the impact of the new accounting standards (IFRS 9 and IFRS 15) in the 2016 annual and 2017 interim IFRS financial statements with the objective of assessing the level of transparency and effectiveness of disclosure on the impact of the implementation of the new standards.

[ESMA Report on Enforcement and Regulatory Activities of Accounting Enforcers in 2017](#) is available on the ESMA website.

Source: www.esma.europa.eu

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IFRS EU Endorsement Process

The European Financial Reporting Advisory Group (EFRAG) updated its report showing the status of endorsement of each IFRS, including standards, interpretations, and amendments, most recently on 24 April 2018.

As of 25 April 2018, the following IASB pronouncements are awaiting European Commission endorsement for use in the EU:

Standards

- IFRS 14 *Regulatory Deferral Accounts* (issued in January 2014) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard
- IFRS 17 *Insurance contracts* (issued in May 2017)

Amendments

- Amendments to IFRS 10 and IAS 28 *Sale or Contribution*

of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)

- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued in February 2018)
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued in October 2017)
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* (issued in December 2017)
- *Amendments to References to the Conceptual Framework in IFRS Standards* (issued in March 2018)

Interpretation

- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued in June 2017)

Click here for the [Endorsement Status Report](#)

Invitation to Spring Seminar

IFRS 16 – New Standard on Leases

We would like to invite you to Deloitte's spring seminar on International Financial Reporting Standards, this time dedicated to new IFRS 16 *Leases*. IFRS 16 replaces IAS 17 *Leases* and the related interpretations and will be effective for the reporting periods starting on 1 January 2019. The standard was endorsed for use in the EU in November 2017.

In the seminar, we will inform you about the key issues of this long-awaited standard, which predominantly introduces major changes in terms of lessees as operating leases will newly be recognised in the balance sheet. The application

of the requirements arising from the standard will be illustrated in a number of practical examples. We will also provide answers to your inquiries in the seminar.

The seminar is predominantly intended for accountants, economists and financial managers of projects relating to IFRS and for all who want to know more about IFRS.

The seminar will be held in Prague in the Czech language and will be delivered by our professionals.

Date: Prague 16 May 2018

More information is available at: <http://events.deloitte.cz/cs/>



What Private Companies Should Know about the New Revenue Recognition Standard

If your company has not yet started addressing the application of the new US GAAP revenue standard, we would like to draw your attention to an interesting article published by Deloitte & Touche LLP on our website iasplus.com, which summarises the basic information on this new standard and specifically deals with differences and exceptions for private companies. The new revenue standard is effective for these companies for the annual reporting period beginning after 15 December 2018, as well as the interim period within annual reporting periods beginning after 15 December 2019.

The main points from the first part of the article are as follows:

- Private companies are required to adopt the Five-Step Model for Revenue Recognition
- The FASB gave private companies some relief related to disclosure requirements set out in the new revenue

standard in the following areas:

- Disaggregation of Revenue
- Contract Balances
- Performance Obligation
- Remaining Performance Obligation
- Significant Judgments
- Contract Costs

The second part of the article is devoted to internal controls related to the adoption and application of the new Five-Step Model.

If you would like to find out more about this matter, we have additional publications on this area for you. You can also contact our experts who will be happy to meet with you to discuss this topic.

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