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# Amended Interpretation of the National Accounting Council for Stock-count Differences on Inventories and Fixed Assets

In this issue of the Accounting News, we will briefly summarise the main features of Interpretation I-39 of the National Accounting Council entitled "Stock-count Differences on Inventories and Fixed Assets".

## About the National Accounting Council

The National Accounting Council (the "NAC") is an independent professional institution promoting professional competencies and ethics in the development of accounting professions and in respect of accounting and financing policies. Its members include the representatives of significant professional organisations (the Czech Chamber of Auditors, the Czech Chamber of Tax Advisors, the Accountants' Union) and academia (University of Economics).

The National Accounting Council's primary mission is to cooperate with the Ministry of Finance, and other governmental, legislative and other institutions in drafting legislation and the related norms on accounting. Also, the Council's task is to create, update, publish and distribute the Czech Accounting Standards and interpretations of the National Accounting Council.

## Interpretations of the National Accounting Council

The interpretations express the expert opinions of the National Accounting Council on hands-on application of Czech accounting rules. The interpretations are not legally binding. Their aim is to contribute to the formation of optimal and unified accounting and financial reporting procedures. They namely focus on issues that are either not addressed by Czech accounting regulations or that are not tackled sufficiently. Also, the focus is on areas for which no unified treatment is applied in day-to-day accounting practice.

## Interpretation I-39 – Stock-count Differences on Inventories and Fixed Assets

Interpretation I-39 (hereinafter the "Interpretation") was issued in April 2019 with the aim of defining a uniform accounting treatment of selected contentious cases of stock-count differences on inventories and fixed assets.

This area of accounting is governed by two accounting regulations – Regulation No. 500/2002 Coll. for businesses (hereinafter the "Regulation") and Czech Accounting Standard for Businesses No. 007 "Stock-count differences and losses as part of the standards for inherent inventory disposals" (hereinafter "CAS"), dealing with the accounting for stock-count differences on fixed assets as well. A closer look at those accounting standards will reveal that both regulations stipulate the same requirements as regards accounting for a shortfall or deficit – these have to be recognised under operating or financial expenses based on the underlying activity. However, the regulations differ in terms of accounting for surpluses. While the Regulation requires recognising surpluses under operating income, a correction of expenses (i.e. crediting surpluses to expenses) is required by CAS.

The Interpretation only addresses selected issues relating to stock-count differences.

The fundamental conclusions of the Interpretation are as follows.

Initially, it is necessary to assess whether the stock-count differences are caused by a prior year error or whether they arose in the current period:

- If the stock-count difference is assessed as a **prior year error**, it will be important to identify whether the error arose solely in the prior period or in multiple prior periods. In such a case, Interpretation I-29 has to be applied, stipulating that an error must be reported in the comparable period to which it relates, or as part of equity presented in the most recent financial statements. According to the Regulation, correction of this error, if material, will be recognised in the item "A.IV.2. Other profit or loss from prior years". Immaterial errors are charged to expenses or income of the current reporting period.
- If the stock-count difference is due to an **error arising in the current reporting period**, a standard correction corresponding to the specific accounting case will be made.

### Accounting for inventory surpluses

The Interpretation prefers for inventory surpluses to be accounted for as a correction of expenses, i.e. crediting surpluses to expenses instead of to income. This is a correction of the value of inventory released from the warehouse rather than additional income from the entity's activity.

### Accounting for fixed assets deficits and surpluses

The Interpretation specifies that accounting for stock-count differences on fixed assets depends on whether the fixed assets are or are not depreciated/amortised and to which reporting period they relate.

*1. Deficits relating to the current period*

a. Depreciated/amortised assets – the carrying amount of these assets is recognised (and the assets are disposed of):

DR Other operating expenses
CR Accumulated depreciation/amortisation

b. Assets that are not depreciated/amortised – the assets being disposed of are recognised (and disposed of):
DR Other operating expenses
CR Tangible fixed assets that are not depreciated

*2. Deficits relating to the prior period*

The entity should consider an alternative accounting treatment giving a true and fair view, including an adjustment (if any) to comparative data in the financial statements.

*3. Surpluses relating to the current or prior periods*

The Interpretation stipulates that asset surpluses should not be recognised under operating income (as required by the Regulation); however, where asset surpluses relate to the current period, they should be treated as an adjustment to the original accounting treatment. Asset surpluses relating to prior periods should be usually accounted for and recognised as a prior year error.

a. Depreciated/amortised assets
DR Tangible/intangible fixed assets
CR Accumulated depreciation/amortisation

In this case, the surplus of depreciated/amortised assets are reported in the zero carrying amount. This accounting treatment is recommended by the Interpretation in the event that the respective assets have already been fully depreciated/amortised. However, if the surplus arose from an inappropriate recognition or valuation of assets in the current reporting period, the Interpretation stipulates that "the entity must determine an accounting treatment giving a true and fair view of the economic use of the asset, its carrying amount and reflecting the surplus in the period to which it relates."

b. Assets that are not depreciated
DR Tangible fixed assets
CR Registered capital and capital funds

This accounting treatment may be used when the asset surplus relates to the current period. However, if the surplus relates to one of the prior periods, this may be a prior year error. In this event, it will also be necessary to adjust comparative data in the financial statements.

The Act on Accounting requires that assets newly reported in the accounting records (such as a stock-count surplus) be measured at replacement cost. In line with the Interpretation, if, however, the surplus arises from an incorrect accounting treatment or measurement in prior periods, its measurement will have to correspond to the measurement which would be applied upon the origination of the surplus as if the assets were accounted for correctly.

The full wording of the Interpretation can be found on the National Accounting Council's website.

Zdroj: www.nur.cz

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# All Listed Companies in the EU Will Submit Their Annual Financial Statements Digitally from 1 January 2020

**On 3 June 2019, the European Commission put forward new rules to support the digitalisation of corporate reporting and to achieve greater transparency of the yearly information disclosed by companies listed in the EU capital markets.**

The new European Single Electronic Format (ESEF) proposed will make companies' financial records more readable and accessible. Under the new rules, from January 2020 all listed companies will need to finalise their annual financial reports using up-to-date digitalised business reporting systems (XHTML and iXBRL) which improve accessibility, and make the information much more user-friendly. The move will also facilitate the availability of key financial information in all EU official languages.

XHMTL (eXtensible HyperText Markup Language) can be opened with standard web browsers and can be prepared and displayed depending on the preferences of an individual issuer. Where the annual financial report contains IFRS consolidated financial statements, these shall be labelled with XBRL tags. XBRL (eXtensible Business Reporting Language) is a freely available and global framework for exchanging business information. XBRL tags make the labelled disclosures structured and machine-readable. This facilitates software supported analysis and comparison of different reports, granting investors a key tool to support their investment decisions. Furthermore, as XBRL taxonomies can contain labels in several languages, users can compare numerical information in the financial statements across issuers even though the issuers prepare their financial statements in different languages. In addition to that, for individual users of financial data, the machine-readable XBRL information is easily transformable to other formats such as SQL or Excel, avoiding onerous manual rekeying.

In support of these new rules, the European Securities and Markets Authority (ESMA) has prepared an ESEF Reporting Manual and ESEF taxonomy files to help companies in their preparation. The new provisions will be updated on a yearly basis to reflect possible updates to the International Financial Reporting Standards (IFRS) taxonomy, which aims to improve communication between preparers and users of financial statements. More information is available here.

Zdroj: www.IASPlus.com
http://europa.eu/rapid/midday-express-29-5-2019.htm?locale=en#10

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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 28 March 2019.**

As of 26 June 2019, 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 3 *Definition of a Business* (issued in October 2018)
- 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 1 and IAS 8 *Definition of Material* (issued in October 2018)
- *Amendments to References to the Conceptual Framework in IFRS Standards* (issued in March 2018)

Click here for the Endorsement Status Report

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# FASB issued targeted transition relief for entities adopting ASU 2016-13

In May 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2019-05 which provides transition relief for entities adopting ASU 2016-13 *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

## ASU 2016-13 Financial Instruments — Credit Losses

Accounting Standards Update No. 2016-13 *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* was issued in June 2016 and introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured on an amortized cost basis, replacing the previous incurred loss methodology. Update 2016-13 also modified the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis.

The amendments affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures and reinsurance receivables.

### Effective Date

For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

## ASU 2019-05 Financial Instruments — Credit Losses — Targeted Transition Relief

Recent amendments in this ASU 2019-05 *Financial Instruments — Credit Losses —Targeted Transition Relief* provide targeted transition relief that is optional for, and will be available to, all reporting entities within the scope of Topic 326. The intention of these amendments is to increase comparability of financial statement information for some entities that otherwise would have measured similar financial instruments using different measurement methodologies.

ASU 2019-05 amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that (1) were previously recorded at amortized cost and (2) are within the scope of ASC 326-20 *Financial Instruments — Credit Losses — Measured at Amortized Cost* if the instruments are eligible for the fair value option under ASC 825-10 *Fair Value Measurement — Overall*. The fair value option election does not apply to held-to-maturity debt securities. Entities are required to make this election on an instrument-by-instrument basis.

### Effective Date and Transition Requirements

a. For entities that have already adopted the amendments in Update 2016-13
   The amendments in ASU 2019-05 are effective for fiscal years beginning after December 15, 2019, including interim periods therein. An entity may early adopt the ASU in any interim period after its issuance if the entity has adopted ASU 2016-13. ASU 2019-05's amendments should be applied "on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the statement of financial position as of the date that an entity adopted the amendments in ASU 2016-13." Certain disclosures are required.

b. For entities that have not yet adopted the amendments in Update 2016-13

The effective date will be the same as the effective date in ASU 2016-13 (see above).

Sources: www.iasplus.com

ASU 2016-13

ASU 2019-05

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