TAX FRESH

ISSUE NO.: 5 / OCTOBER 2016

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Dear Business Friends,

On 1 January 2016, probably the most extensive amendment to the Czech accounting regulations in the past years came into effect. In our view, the most crucial change relates to the duty to prepare consolidated financial statements. The Accounting Act and relating regulations also bring in new terminology (e.g. accounting unit categories) and changes to a number of duties of accounting units. In this Tax Fresh issue, we have prepared an overview of the most crucial changes.

Yours faithfully,

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DUTY TO PREPARE CONSOLIDATED FINANCIAL STATEMENTS

Currently, the duty to prepare consolidated financial statements applies to a greater number of accounting units. The new rules will apply for the first time in relation to the period commenced in 2016.

An accounting unit that is a corporation and is a controlling entity (or, to put it simply, controls subsidiary corporations), is obliged to prepare consolidated financial statements for a given period provided that the consolidated basis of these accounting units exceeds at least two of the following threshold values as of the balance sheet date:

- total assets (net value) of CZK 100 million (formerly a simple sum of gross assets of CZK 350 million);
- net turnover of CZK 200 million (formerly a simple sum of CZK 700 million);
- average number of employees in the accounting period – 50 (formerly 250).

The duty to prepare consolidated financial statements for the period commenced in 2016 depends on the figures from the immediately preceding period.

If, however, one of the accounting units in a group is a public interest entity, consolidated financial statements must be prepared regardless of the criteria above.

The Accounting Act provides for two exemptions from the duty to prepare consolidated financial statements:

a) An accounting unit is not obliged to prepare consolidated financial statements if the controlled accounting units, both individually and in aggregate, are insignificant or may be excluded from consolidation in line with the Accounting Act.

b) An accounting unit is not obliged to prepare consolidated financial statements as long as it is, at the same time, a consolidated accounting unit included into a consolidated unit of another consolidating entity governed by the law of another EU member state. That, however, applies only provided the other conditions laid down in the Accounting Act have been met.

   Under one of these conditions, for example, the consolidated financial statements of a group that includes an accounting unit otherwise subject to consolidation under Czech regulations must be published in the Commercial Register. The financial statements must be published in the Czech version.

The failure to fulfil the duty to prepare consolidated financial statements or to publish them in the Commercial Register is considered an administrative offence, as a result of which the tax authorities may set a fine of up to 3% of the value of total consolidated assets.

OTHER CHANGES

Accounting unit categories

Duties of individual accounting units are primarily specified based on the category they fall into.

The act specifies the following categories of accounting units:

- **micro accounting unit**
  (does not exceed at least two of these threshold values: CZK 9 million in total assets, CZK 18 million in total annual net turnover, average number of employees – 10)

- **small accounting unit**
  (it is not a micro unit and does not exceed at least two of these threshold values: CZK 100 million in total assets, CZK 200 million in total annual net turnover, average number of employees – 50)

- **medium-sized accounting unit**
  (it is not a micro or small accounting unit and does not exceed at least two of these threshold values: CZK 500 million in total assets, CZK 1 billion in total annual net turnover, average number of employees – 250)

- **large accounting unit**
  (exceeds at least two of these threshold values – CZK 500 million in total assets, CZK 1 billion in total annual net turnover, average number of employees – 250).

Entities fall into individual categories for the period commenced in 2016 based on the values from the immediately preceding period.

An entity can be re-classified to fall into a different category only if it has failed to meet the relevant threshold values for two years.

Units subject to audit

The following accounting units must have their ordinary or extraordinary financial statements audited:
- large accounting units (with certain exceptions);
- medium-sized accounting units;
- as for small accounting units, the same rules valid for all entities in previous years for all entities apply; The decisive factor is whether or not the following criteria have been met in two consecutive periods:
    - total assets of CZK 40 million;
    - total annual net turnover of CZK 80 million;
    - average number of employees – 50.

Joint-stock companies and trusts must meet at least one criterion while other accounting units must meet two.

Duty to prepare a cash flow statement and a statement on changes in equity

The financial statements of medium-sized and large accounting units must now contain a cash-flow statement and a statement on changes in equity.

When preparing these statements, companies need to be aware that these are also to comprise comparative period information. Hence, cash flow statements for the period ending on 31 December 2016 must include a cash flow statement for 2016 and also for 2015.

New forms of financial statements and notes

For the period commenced in 2016, entities need to use a completely new form of financial statements (arising from amended Decree No. 500/2012 Coll. on accounting of entrepreneurs). A number of items were reclassified, split or renamed compared to items in financial statements used in previous periods.

Comparative period information must also be entered into the new form of financial statements. The rather extensive change resulted into issuing of new Czech Accounting Standard No. 24 – Comparative period information for the period commenced in 2016.

Moreover, there are several partial changes in information that need to be disclosed in the notes to the financial statements. Information required in the financial statements differ depending on the category of the accounting units.

Changes in certain key definitions

- Total assets
  This is a key indicator determining whether or not an entity is subject to audit or consolidation. Total assets now mean net asset value. Under previous regulation, total assets meant the gross value of assets (i.e. excluding adjustments and depreciation).

- Events after the balance sheet date
  The definition of subsequent events has been refined. Now, the act is explicit in providing that the accounts of the current accounting period must reflect the impact of events that occurred before the end of the balance sheet date, even if the accounting unit learnt about the events between the balance sheet date and the date of the preparation of the financial statements.

Publication of income statements

Small and micro accounting units whose financial statements are not subject to audit, do not have to publish their income statements in the Collection of Documents. These units, however, still have to publish their balance sheets and the notes.

Changes in accounting methods

The most significant changes can be summarised as follows:

- Change in the inventory of own production and own work capitalised are no longer revenues but expenses. They are recognised in expenses group No. 58 – Change in inventory of own production and own work capitalised.
- Extraordinary expenses and revenues have been cancelled as items and transferred to other operating (in some cases financial) expenses and revenues.
- New requirements as for the measurement of inventory of own production.
- Incorporation expenses are now directly expensed.
- Goodwill can be amortised for up to 120 months.

Should you have any questions regarding the above, we will be happy to help you. We are also ready to assist you in implementing the above changes in your corporate accounting system.

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