AUDITOR
Audit ▪ Tax ▪ Accounting

Information for clients No. 4

Czech Republic
December 2015

Dear client,

As usual at the end of the year, we would like to inform you about new tax-related matters, this time in the area of accounting regulations. The legislature was again very creative and took every opportunity to make us busy. Our colleagues participated in intense internal and external training this year, which makes the upcoming year a welcomed challenge.

Our company has been through a relatively stable year. We are increasingly being approached by Czech clients who wish to invest in Austria. Being familiar with the legal framework in both countries we are obviously the right consulting choice in matters of this kind.

As Austria's honorary consul in Brno, I have had numerous interesting discussions and meetings. This is indirectly related to the growth of our Brno office in which we now have six colleagues.

At the end of the year, we would like to thank our employees. Their commitment and persistent willingness to learn has made them the key ingredient in our company's success. Most importantly, however, I would like to thank you – our clients. We have worked together with some of you for almost 25 years.

We wish you a Merry Christmas and much happiness, success and prosperity in 2016.Yours

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Changes in accounting in 2016

Act No. 221/2015 Coll. and Decree No. 250/2015 Coll. have significantly changed Czech acounting regulations. The new wording will be applied for the first time in the accounting period which commences in 2016. In the following text, we provide information on the most important changes.

Classification of accounting entities

Accounting entities are newly divided into categories. Each category has a defined scope of duties related primarily to the method of keeping accounts, scope and contents of the financial statements, disclosure of information from accounts, etc.

In general, the higher the category the more duties there are.

Categories of accounting entities:
- micro accounting entity;
- small accounting entity;
- medium accounting entity or
- large accounting entity.

The following parameters are assessed for classification of accounting entities into the above categories – total net assets, total annual net turnover, average number of employees during the accounting period.

Table No. 1

Category	Assets (in CZK MIO)	Turnover (in CZK MIO)	Employees
micro	up 9	up 18	up 10
small	9 to 100	18 to 200	10 to 50
medium	100 to 500	200 to 1,000	50 to 250
large	over 500	over 1,000	over 250

Two criteria from a category must be satisfied for placing an accounting entity into that category. For a transfer to another category, it is necessary to exceed at least two criteria for the given category in two accounting periods.

Subject and scope of accounting

From 2016 onwards, the Accounting Act recognises the following "kinds" of accounting:
- single-entry accounting;
- accounting kept by double-entry records to the full extent;
- accounting kept by double-entry records in a simplified regime;
- accounting kept under international accounting standards regulated by EU laws.

The option to keep single-entry accounts was re-introduced but only for selected non-business legal entities.

In general, accounting entities are obliged to keep "double-entry" accounts to the full extent. However, in the new arrangement, contributory organisations and accounting entities strictly specified by law, and where legal entities are concerned, only non-commercial ones (such as endowment funds, associations) are allowed to keep accounts in a simplified regime.

A company that issues investment securities admitted to trading on a European regulated market shall keep accounts according to international accounting standards regulated by EU laws.

Changes in the scope of account keeping can be made only as of the first day of an accounting period.

Financial statements

Financial statements generally encompass the balance, profit/loss account, annex to financial statements, cash flow statement and overview of changes in equity. The Act specifies the statements to be drawn up by each category of accounting entities – a summary is provided in table No. 2 (page No 3).

The scope of the annex and the information to be provided in it depend on the category of the accounting entity which compiles the annex. Once again, the higher a category the greater the scope of the information contained in the annex.

New balance-sheet and profit/loss account forms have been prepared for 2016. Significant changes occur in the following areas:
- Bank loans and financial assistance were transferred to long-term and short-term liabilities and are no longer specified in a separate section.
- Incorporation expenses are absent.
- Donations received will be entered in operating or financial revenues and not in equity.
- The sales margin will no longer be visible separately in the profit/loss account.
- The "Net turnover for accounting period" will be the last line of the profit/loss account.

In the transition to the new forms, it will be necessary to adjust the data for the past period to ensure comparability.

Subsequent events

The new regulation describes a duty to reflect in the accounts for the current accounting period, the effects of events that occurred by the end of the balance-sheet date and the accounting entity became aware of them between the balance-sheet date and the time of compiling the financial statements. Important events occurring after the balance-sheet date must be described and quantified in the annex to the financial statements.

Annual report

An annual report is to be compiled by all accounting entities that have a duty to have their financial statements audited.

Medium accounting entities, small accounting entities and micro accounting entities are no longer required to provide non-financial information in the annual report.

Report on payments

The duty to compile a report on payments is newly imposed on large accounting entities in the mining industry and the industry of wood harvesting in original forests.

This is an overview of payments to central, regional and local authorities of Member States or third countries that exceed EUR 100,000.

Audit

Large and medium accounting entities always must have their financial statements audited without taking account of any additional parameters.

Small accounting entities must have their financial

Table No. 2

Type of entity	Categories of accounting entities	Balance sheet	Profit/loss account	Annex to financial statements	Cash flow statement	Overview of changes in equity
Business companies	Large	YES	YES	YES	YES	YES
	Medium	YES	YES	YES	YES	YES
	Small	YES	YES	YES	NO	NO
	Micro	YES	YES	YES	NO	NO
Public-interest entities	Banks, insurance companies, reinsurance companies, pension insurance companies- regardless of size	YES	YES	YES	NO	YES
	Accounting entities following international accounting standards (IAS/IFRS) – regardless of size	YES	YES	YES	YES	YES
	Health insurance companies – regardless of size	YES	YES	YES	YES	YES
Co-operatives	Regardless of size	YES	YES	YES	NO	NO
"Selected accounting entities" (accounting of the State)	When the following criteria are exceeded: ▪ net assets >CZK 40 million and ▪ turnover >CZK 80 million	YES	YES	YES	YES	YES
Other accounting entities not specified above	Regardless of size	YES	YES	YES	NO	NO

statements audited if they are joint-stock companies or trusts and have exceeded or reached at least one of the following thresholds as of the balance-sheet date of the accounting period for which the financial statements are audited and the immediately preceding accounting period:
1. total net assets of CZK 40,000,000;
2. total annual net turnover of CZK 80,000,000;
3. average number of employees being 50.

Other small accounting entities are subject to auditing only if they exceeded or reached at least two of the above thresholds as of the balance-sheet date of the accounting period for which the financial statements are audited and the immediately preceding accounting period.

Please note the change consisting in the fact that up until the end of 2015, gross assets were the decisive parameter while from 2016 onwards, the net figure will be taken into consideration, i.e. after reflecting accumulated depreciation and impairments.

According to the amendment to the Auditors Act, auditors will release only one report on the financial statements and annual report for audits completed after January 1, 2016.

Disclosure

Accounting entities entered in the register shall disclose the following accounting documents in the collection of instruments:

- financial statements and, if applicable, annual report (this newly applies for example to associations, associations of owners of units in a building, etc.),
- proposal for distribution of profits or settlement of losses unless they form part of the financial statements,
- report on payments if compiled by the accounting entity (as mentioned above).

Accounting entities that have the duty to have their accounting statements audited shall publish the financial statements and the annual report after having them audited and then approved by the competent body within 30 days of compliance with both aforesaid conditions, unless stipulated otherwise in the special legal regulations, but not later than 12 months from the balance-sheet date of the financial statements being disclosed.

Small accounting entities and micro accounting entities that do not have a duty to have their financial statements audited do not need to disclose the profit/loss account unless this duty is stipulated for them in a special legal regulation.

Valuation of inventory and fixed assets created through own activities

The Accounting Act and the implementing decree detail the text on the valuation of inventory created through own production and tangible/intangible fixed assets created through own activities.

Such assets are valuated using direct and indirect costs. For indirect costs, actual assignability of a cost to an acquired asset is a prerequisite. Thus, in most cases, administrative overhead expenses will no longer be included in the valuation. Overhead costs of sales are generally not included in the valuation of assets.

Change in inventories and costs capitalised will no longer be entered in revenues but as a correction of costs and as such it will no longer increase the amount of net turnover.

Changes in accounting methods

We have selected several changes in accounting methods that come into effect in 2016:

- Change in the method of valuation of inventory created through own production (as mentioned above).
- Change in inventory created through own production and costs capitalised will not be recorded in revenues as to date but in costs. This will have an effect on the amount of turnover of the accounting entity concerned.
- Incorporation expenses will be entered directly in costs, while existing incorporation expenses will be gradually depreciated.
- An accounting entity may newly decide to depreciate goodwill or negative goodwill for more than 60 months but not more than 120 months.
- Donations received will be entered in revenues and not in other capital funds as to date.
- When inventory excesses are identified in fixed assets, they will be entered in the replacement price against revenues. If they represent assets subject to depreciation, they will be depreciated from the ascertained value.

Provisions

The regulation of provisions was transferred from the implementing decree to the Accounting Act and supplemented. No changes in the concept should occur.

Penalties under the law

The scope of administrative offences was broadened. Offences related to the new duties of accounting entities after the amendment coming into effect were added, for example, for accounting entities compiling a report on payments and entities keeping single-entry accounts.

Profit shares

The Accounting Act newly limits the payment of dividends in Section 28 (7). "If the costs of development are reported in the balance-sheet assets, any payment of profit shares is prohibited unless the disposable funds from which profit shares and retained profits can be paid are at least equal to the non-depreciated portion of the costs of development."

It is not stipulated entirely clearly in the cited provision as to how the final amount of profit shares will be ascertained. The costs of development are usually included in intangible fixed assets in the balance sheet, in accruals/deferrals or inventories. The text of the Act refers merely to development and not research. Therefore, the maximum amount of profit shares that may be paid will be equal to the amount by which disposable funds exceed the residual value of the costs of development in the balance sheet.

At any rate, it is necessary to observe the general provisions of the Corporations Act on the payment of dividends, in particular Section 40 of the Corporations Act.

Please do not hesitate to contact us if you have any questions. ■

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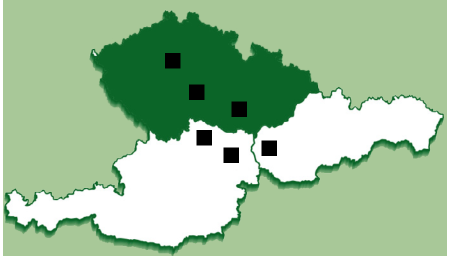
AUDITOR in Central Europe

AUDITOR is an audit and tax consulting company with an international focus that has been providing services for more than 20 years in **tax consulting, personel** and **payroll administration, financial accounting** and **business consulting**.

The company provides complex consultancy in Central European countries via sister companies in the Slovak Republic and Austria (using **Stöger & Partner** as a brand name). For solving global consultancy issuies, Stöger & Partner is an independent consultancy companies in more than 80 countries of the world.



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