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PROBLEMS OF GOODWILL REPORTING IN THE CZECH REPUBLIC[1]

This paper is focused on how accounting legislation in the Czech Republic affected and still affects the reporting of difference arising from acquisition of net assets of another entity. (either from acquisition of shares or from acquisition of net assets). The aim of this paper is to point out the series of defects in accounting legislation, which lead to the fact that an acquisition difference may be reported in a single financial statement in several different ways and under several different rules. Above all, it is also important to emphasize the fact that Czech accounting legislation prefers the formal legal aspects of a transaction in financial statements (without any respect to its economic substance)

Although the need of transparent financial reporting is permanently emphasised, it is not possible to determine the current conditions in the Czech Republic as acceptable. On one hand, the management itself contributes to the degradation of the information potential of its financial statements, and does so intentionally or unintentionally. In most cases, the effort is put into making financial reports look better (or worse) in a way, which is desired by its management intending to present the company in such way to external users. This phenomenon is usually defined as window dressing, creative accounting etc.

In addition to these subjective motives and efforts of the companies´ managements, there is another reason for the inadequate transparency of financial statements in the Czech Republic. In this place, we have to mention the Ministry of Finance's "significant contribution" to the degradation of the financial statements quality, while this institution operates as the only standard setter in the country. Low-quality results of the Ministry's work permeate through the whole financial reporting system. Still, it is appropriate to outline the effects of the Ministry's low-quality work on the transparency of the financial statements, demonstrating it on a more concrete problem.

This paper is focused on how accounting legislation in the Czech Republic affected and still affects the reporting of goodwill (or an acquisition difference defined in another way). The aim of this paper is to point out the series of defects in accounting legislation, which lead to the fact that an acquisition difference may be reported in a single financial statement in several different ways and under several

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different rules. Above all, it is also important to emphasise the fact that Czech accounting legislation prefers the formal legal aspects of a transaction in financial statements (without any respect to its economic substance). In this paper, goodwill serves as an example the state imputed non-transparency of the financial statements presented to external users can be demonstrated on.

The Period of Commercial Code, the Accounting Act. The period after 1992 has been very significant for the reporting of goodwill (or acquisition difference). In this period, the privatisation continued and the majority of companies became privately owned. Two important legal acts were enforced: the Commercial Code and the Accounting Act. Later on, more detailed directives followed, represented mainly by the Chart of Accounts and Accounting Procedures, Procedures of the Preparation of Consolidated Financial Statements etc.

Accounting directives were mainly influenced by those in France (evidently because the Ministry of Finance cooperated with French professionals). These acts and other directives replaced legislation of the communist era (Economic Code, Accounting Ordinance, etc.). In the period after 1992, business combinations has become common transactions. However, accounting directives did not distinguish the basic types of business combinations according to their economic effect (like former IAS 22 which distinguishes acquisitions and uniting of interests) but mainly their legal forms. With respect to the eventual acquisition difference, we can talk about the following basic types of acquisitions:

– the purchase of a substantial interest (shares) in acquired companies;
– the purchase of a company´s net assets;
– legal mergers.

Consolidation of Financial Statements. The First Phase – Consolidation Measure (1993) [1993 – 2001]. In Czech accounting legislation, consolidation of financial statements was firstly incorporated in the Accounting Act since the year of 1991. In this act, the obligation of preparing consolidated financial statements was confirmed. However, the rules of consolidation were formulated later in a measure issued at the turn of 1993 and 1994 [Measure "Setting Out Procedures for the Consolidation of Financial Statements" issued by the Czech Ministry of Finance No.: 281/73 570/93 (hereafter referred to as the Consolidation Measure or CM (1993))]. Consolidation under this measure was firtsly applied on financial reports for the year ended 1993. At this time, there was no significant demand for consolidated information. It appears that the main motive of the Czech Ministry of Finance was to supplement the existing set of accounting directives in areas, which were not yet legislatively regulated. For the first time in the history of Czech accounting, it was possible that an acquisition difference – emerging from the acquisition of the contol portion of shares in a subsidiary – appeared in financial statements. If such difference was positive, it was determined as an "Active Consolidation Difference", if it was negative, it was determined as a "Passive

Consolidation Difference". A positive consolidation difference was recognised as an asset, a negative consolidation difference as a component of the equity. The consolidation difference was computed as follows:

$$CD(93) = IS - pb \cdot (EScb - PLc), \qquad (1)$$

CD(93) Consolidation difference according to CM (1993),

IS investment in subsidiary (in purchace price),

Pb parent′s proportion of subsidiary′s equity at the balance sheet date in the year of the first consolidation,

EScb equity of subsidiary at the balance sheet date in the year of the first consolidation at book values,

PLc profit or loss at the balance sheet date (in the year of the first consolidation).

The approach of CM to the consolidation difference led to the fact that:

– in the first year of the consolidation[2], all preacquisition gains and losses were "referred to" as postacquisition gains and losses;

– in the first year of the consolidation, all postacquisition changes in the reserves of the subsidiary company were "referred to" as preacquisition changes,

– all postacquisition changes in equity (including retained earnings) up to the end of the accounting period preceding the year of the first consolidation, were "referred to" as preacquisition changes

– the consolidation difference included valuation differences (differences between the fair values and the book values of the subsidiary´s net assets)

– the amount of the consolidation difference was also influenced by the difference between the purchase price of the investment in the subsidiary company and the total costs of the acquisition

– the consolidation difference thus could, but did not have to include goodwill.

Basic differences between goodwill (under former IAS 22 or SFAS 141) and a consolidation difference (under CM 1993) in the year of the first consolidation (not considering amortisation), can be expressed transparently as follows:

	Goodwill (IAS 22, SFAS 141)
+/–	difference between book value and fair value of the subsidiary´s net assets
– (+)	acquisitor´s proportion of increase (decrease) in equity from the acquisition date until the end of the period preceding the year of acquisition
– (+)	acquisitor´s proportion of postacquisition increase (decrease) of reserves in the year of the first consolidation
+ (–)	preacquisition gains (losses) in the year of the first consolidation
–	any other costs directly attributable to the acquisiton
=	**Consolidation Difference (CM 1993)**

[2] The first year of consolidation did not necessarilly correspond with the year of acquisition. Some groups were often consolidated several years after the acquisition. One of the purposes were the size criteria of the group for mandatory consolidation, the other was the fact that – until the year 1993 – no rules of consolidation were confirmed in accounting legislation.

The Consolidation Measure treated the consolidation difference (both at the date of the first acquisition and after) in an unusual way. The measure required – in both cases of an active or a passive consolidation difference – two alternative methods:

a) write-off the whole consolidation difference directly to consolidated extraordinary gains (positive difference) or to consolidated extraordinary losses (negative difference) at the date of the first consolidation and not recognise it as a balance sheet item, or

b) in case of a positive difference, recognise it as a specific asset which is included in the balance sheet amongst fixed assets, but in no case amongst property, plant and equipment, intangible or financial assets. A negative difference is recognised as a specific component of the equity.

If the alternative b) was chosen, the consolidation difference (positive or negative) was systematically amortised over 5 accounting periods, i.e. 20 % of the difference was amortised in each period starting the year of the first consolidation. Similarly in this case, earnings were influenced by amortisation.

Paradoxically, there were two permitted methods of reporting the acquisition difference: a direct write-off (immediately expensed) in the first year of the consolidation or an amortisation over a period of 5 years. The formulation in the Consolidation Measure did not permit an amortisation in an interval shorter than 5 years.

It is also paradoxical that the non-transparent rules formulated in the Consolidation Measure (1993) remained in force until 2001. Yet it is necessary to mention about the major facts that determined the quality of CM (1993):

– *for the first time in the history of Czech accounting, rules of the consolidation of financial statements were created.* The Ministry of Finance – as a state institution regulating the area of accounting – had almost no experiences with this issue and was not able to find the proper inspiration in generally accepted principles of consolidation.

– *there was an effort to apply some provisions of the 4th and the 7th Directive of the EU.* The amortisation of a consolidation difference over a period of 5 years was evidently inspired by the 4th Directive. The provision defined the balance sheet date as the crucial date for the first consolidation (and also influencing the amount of the consolidation difference), which was inspired by one of the alternatives given by the 7th Directive (unlike IAS 22).

– *there was an effort to provide simplified rules for companies preparing consolidated financial statements.* However, this did not prove in practice. On the contrary, the consolidation rules stated by CM (1993) complicated the companies´ lives in numerous cases.

– *at the time, there were no clearly formulated requirements of users regarding the quality of information.* The insufficiently developed market in the first half of the 1990s had a consequence that the potential users did not often comprehend the meaning and the information potential of consolidated financial reports. We can thus say that there was no sufficiently qualified demand for consolidated information.

The Second Phase – Consolidation Measure (2001) [2002 – 2003]. In 2001 – in connection with certain changes in the Accounting Act – there were also changes in other accounting directives. Regarding the legislative treatment of consolidated financial statements, these changes were of crucial importance. The original CM (1993) was replaced by a new Consolidation Measure from the year 2001 (hereafter referred to as CM (2001)), which was effective for consolidated financial statements for the year ended 2002. The preparation of this measurement was placed in the hands of two external consultants (it was thus not publicly discussed by professionals), whilst these consultants had only two days (or rather a few hours) for its preparation. On the one hand, the amendment was not based neither on longer discussion nor on empirical research and it was carried out in time presure. On the other hand, there were significant changes related to the consolidation of financial statements, which led to a fundamental approach of Czech accounting rules of consolidation towards the International Accounting Standards. There was also a crucial change in the consolidation difference reporting.

In CM (2001), the term "consolidation difference" still remains. This time, positive difference was termed as "active consolidation difference"(for year 2002) and negative difference as "negative consolidation difference". From the year 2003, active consolidation difference was renamed to "positive consolidation difference" in connection with the ordinance no. 500/2002 (an implementary regulation to the Accounting Act), without any changes in the meaning of this item.

$$CD(01) = CA - pa \cdot ESaf\,, \qquad (2)$$

CD(01) Consolidation difference,

CA investment in subsidiary (cost of acquisition),

pa parent′s proportion of subsidiary′s equity at the date of acquisition,

ESaf equity (or net assets) of subsidiary at the date of acquisition based on fair values.

The approach of CM (2001) to the consolidation difference led to the fact that this difference – in formal aspects – broadly corresponded with the term goodwill or negative goodwill under IAS 22[3]. Similarly, both differences are reported amongst assets in the balance sheet – a positive difference is reported as an asset, a negative

[3] Differences between CM (2001) and IAS 22 regarding the recognition of a consolidation difference represent negligible details.

difference is reported as a correction of net assets with a minus sign. Also under CM (2001), consolidation differences are reported amongst fixed assets, separately from property, plant and equipment (PPE), intangibles and financial assets.

Both a positive and a negative consolidation difference is amortised under CM (2001) on a straight-line basis over a period of 20 years, unless there is a rationale for a shorter period. The 20-year period – unlike the treatment of goodwill under IAS 22 – was not a refutable assumption. The amortisation of a negative consolidation difference – analogously as of a positive consolidation difference – was not in compliance with IAS 22. There was an evident phemomenon of handling the negative difference in a very simple way without any sophisticated ambitions. The amortisation of consolidation differences – unlike under CM (1993) – was thereafter not accounted as an extraordinary loss (event. gain).

Unfortunately, CM (2001) did not include any interim provisions related to the changes in rules. That is why several companies still report consolidation differences connected with investments until the end of 2001 under CM (1993) and differences connected with investments after 2002 under CM (2001). This fact has lead to inconsistence in consolidated financial statements.

It is also necessary to make a mention of the main facts by which the new treatment of consolidation difference under CM (2001) was conditioned:

– *the public was already sufficiently informed.* The Ministry of Finance – as a state insitution methodically regulating the area of accounting – could turn to professionals in issues related to consolidation of financial statements.

– *there was an effort to apply a whole range of principles included in IAS.* The amortisation of the consolidation difference over 20 years was evidently inspired by IAS 22. Provisions, which determine the acquisition date as the crucial date to the outset of the consolidation and the identification of the consolidation difference, were also inspired by IAS 22.

– *companies had already gained some experience in connection with the preparation of consolidated financial reports for capital markets or foreign parent companies*

– in the economic environment of the Czech Republic, there is an existing demand for consolidated information.

The Third Phase – Czech Accounting Standard 020 ‚Consolidated Financial Statements‘ (2004) [from 2004]. At the beginning of 2004, Czech Accounting Standards were enforced formulating the rules of accounting and financial reporting. These standards were again paradoxically prepared by the Czech Ministry of Finance, without involving professionals in the process of national standardisation! In comparison with CM (2001), CAS 020 – which is devoted to consolidation – does not bring any novelties. The only significant change is that consolidation differences are amortised unconditionally over a period of 20 years on a straight-line basis. The possibility of a shorter amortisation period was excluded. In this case, we can see again an arbitrary solution of a state institution without professional approach.

The possibility of using IAS/IFRS principles in consolidation. The amendments made to the Accounting Act in 2001 enabled companies to consolidate their financial statements under IAS or other internationally accepted accounting principles from the year of 2002. This provision does not determine whether companies will have to follow solely consolidation procedures under internationally accepted principles or they will have to report their financial statements fully in accordance with these principles in all aspects. This obscurity implies that we encounter consolidated financial statements under national directives while applying consolidation procedures in accordance with IAS or other accepted standards. This hybrid way of reporting represents another curiosity in the development of Czech financial reporting. In the area of goodwill reporting, or another consolidation difference, it is a very important piece of knowledge.

The Purchase of the Net Assets of the Business. The First Phase (1993 – 2002). The gradual transition of the Czechoslovak economy into a market-orientated system represented a process of forming conditions for a transaction, which was not realisable until now – the acquisition (sale) of an enterprise or its net assets. At the same time, privatisation is still in process, that is, companies can be acquired by public auction or by direct sale. The first commercial framework, regulating transactions with a company´s net assets, was represented by the Commercial Code in 1991. New regulations related to accounting were enforced in 1993. The issue of the acquisition difference is handled in the measure issued by the Ministry of Finance "Chart of accounts and Accounting Procedures for Enterpreneurs", In this regulation, this difference is called "Adjusting Item to Acquired Property" (direct translation from the Czech equivalent).

This item could assume both positive and negative values and was defined as follows:

$$AIAP = (PPp - L) - (Ab - L), \tag{3}$$

AIAP adjusting item to acquired property,

PPp purchase price (in case of the company´s acquisition),

Ab assets of acquired company at book value,

L land at agreed or estimated price; or

$$AIAP = (PPa - L) - (Ab - L), \tag{4}$$

PPa reached price by public auction during the privatisation.

In case of a positive AIAP, accounting directives also enabled the revaluation of the acquired assets based on their appraisal. However, the revaluated amount could not exceed the originally recognised AIAP. Differences are presented as follows:

$$AIAP = (Pp - L) - (Aa - L), \qquad (5)$$

Aa assets of acquired company in revaluated amounts based on appraisal; or

$$AIAP = (Pa - L) - (Aa - L), \qquad (6)$$

– The Measure of Ministry of Finance from 1993 uses a term “purchase price” instead of a more adequate term “cost of acquisition”(including any other costs directly attributable to the acquisition)

– Land could not be included in AIAP, because its price was stated separately

– The fact that the calculation did not include liabilities, is an evident error. Although they are not mentioned in the directive as part of the calculation, practice included in this item net assets (instead of assets) of the acquired entity[4].

The “Adjusting Item to Acquired Property” was included in long-term tangible assets and was amortised over a period of 15 years. The amortised amount of a positive AIAP was recognised as an expense and the amortised amount of a negative AIAP as a gain.

It is unusual that an acquisition difference not representing a valuation difference was included in tangible assets. The treatment of AIAP in accounting directives thus appears as erroneous. The amortisation period of AIAP was stated in an arbitrary way and it was evidently stated ad hoc without any reason. Provisions related to AIAP were revised several times. However, none of the revisions changed the fundamental characteristics of the acquisition difference reported in such way.

From 1995 – apart from the purchase of the net assets of the business and privatisation by public auction – the directive´s force was extended also to investments in companies compensated by transferring the investor´s net assets[5]. There were two other changes important to be mentioned: on the one hand, embodiment of liabilities in the calculation of AIAP and on the other hand, cancellation of the special regime applied for land from 1996. “Purchase price” used for the calculation of AIAP was gradually changed to “total price“ and finally, since 2000, the directive also permits the term “cost” (including costs directly attributable to the acquisition). After this change, the calculation of AIAP was modified in the following way:

$$AIAP = CA - NAb, \qquad (7)$$

CA cost of acquisition,

NAb net assets of acquired business at book value; or,

$$AIAP = CA - NAa, \qquad (8)$$

NAa net assets of acquired business at revaluated amount.

[4] The authors of this directive perhaps assumed that the purchase price will be reduced by the book value of liabilities.

[5] Regarding the extent of this paper, differences emerging from such types of business combinations are not hereafter concerned.

The Second Phase (since 2003). Changes in reporting acquisition differences were brought by an implementary provision to the Accounting Act no. 500/2002 (hereafter referred to as Provision (2002)). This provision implies that an acquisition difference emerging from a company´s purchase can be reported in two separate items:

i) Valuation Difference to Acquired Net Assets (hereafter referred to as VDANA)

This difference can be positive or negative and it can be formulated as follows:

$$VDANA = VB - NAb, \tag{9}$$

VB value of the business acquired,

NAb net assets of acquired business at book value.

The valuation difference to an acquired asset – identically as in the case of AIAP – included in long-term assets and is amortised over a period of 15 years (since 2004, it is stated as a period of 180 months). The amortised value of a positive VDANA is recognised as an expense and the amortised value of the negative VDANA is recognised a gain. The term “value of the business acquired” – in case of purchase of net assets – basically represents the cost of the acquisition.

It is evident that VDANA does not represent an item qualitatively different from AIAP calculated from the non-revaluated net assets of the aqcuired enterprise.

ii) Goodwill

For the first time after the economic changes after 1990, Provision (2002) explicitly mentions the term goodwill. Goodwill can be identified either as positive or as negative:

$$Goodwill = VB - NAa, \tag{10}$$

VB Value of the business acquired,

NAa net assets of acquired business in revaluated amounts of assets.

Goodwill – unlike VDANA or AIAP – is included in intangible assets. It is amortised over a period of 5 years (from 2004 it is stated at 60 months) and its amortisation is recognised as an expense. Similarly, negative goodwill is amortised in 5 years (i.e. 60 months) and its amortisation is recognised as a gain. It is not clear what method of adjustment of net assets´values is concerned in this provision. From the year 2004, the provision states that the revaluation of assets has to be determined by a specific legal act. However, it is not evident which act is concerned. The idea that relevant values for the calculation of goodwill can be determined administratively is thus evidently incorrect.

Purchase of net assets in the early 1990s were mostly represented by privatisation in form of public auction. Later on, this method of privatisation almost disappeared, nor the standard purchases of net assets were common amongst business combinations. In the area of reporting acquisition differences, there was only a non-significant development in the mentioned period. Czech accounting legislation enables an alternative solution for the computation of AIAP and VDANA. However, in case of the revaluated items, it is not yet evident which principles must be applied in revaluation and whether the target values are represented by fair values or other. A fundamental change in the principles of reporting acquisition difference when purchasing net assets was brought by the Provision (2002), where the phenomenon of goodwill appears explicitly. Including AIAP or VDANA in long-term tangible assets can be considered as a serious problem, because it is evident that they can include – apart from valuation differences – also goodwill. Unlike these differences, goodwill is included in intangible assets. The amortisation period of AIAP and VDANA differs from the amortisation period of goodwill. The amortisation period of goodwill is evidently adopted from the 4th Directive of the EU and it was distilled into Czech accounting legislation due to the country´s entrance to the EU. The length of the amortisation period of AIAP or VDANA is a solely arbitrary decision of officials at the Ministery of Finance and it corresponds to the assumption that the substantial amount of the acquisition difference is created not by goodwill, but valuation differences.

Legal Mergers*[6]*. Legal mergers were carried out from the time when new commercial legislation came into force in the early 1990s. In fact, until 1996, legal acts did not formulate such accounting principles which could give a clear answer to the problem of reporting mergers. Accounting directives started to react gradually to the frequent changes in commercial legislation. Also accounting legislation started to react to the frequent changes in rules related to mergers. In connection with these changes in legal acts we can identify several periods of reporting mergers and eventual acquisition differences emerging from them.

The First Period (1992 – 1996). This period can be characterised as a period of improvisations in reporting mergers. In case of merged companies, an aggregation of the items of assets and liabilities was made and mutual relations were excluded. Reporting was usually found upon a measurement based on the carrying amounts of the merged companies. The acquisition difference could include both a valuation difference and goodwill. However, it was recorded at its total amount as a component of the company´s equity after the merger. A positive difference reduced and a negative difference increased the amount of the equity. In some cases, companies after merger reported a positive acquisition difference, analogically as reporting an active consolidation difference under CM (1993).

The Second Period (1996 – 2000). This period represents a reaction to the amendment made to the Commercial Code, which declared the obligation to determine the value of the winding-down business by an appraiser. We can formally state that the

[6] This part of the paper deals with the main aspects of reporting a consolidation difference or goodwill, emerging from mergers. A more datailed approach – with respect to the wide range of specific provisions in commercial and accounting legislation – would exceed the character and the adequate extent of this paper.

computation of goodwill emerging from a merger was broadly in compliance with IAS 22. The purchase method was applied for this type of business combinations and – in case of merging more than two companies into a new one – basically the fresh start method was used. These concepts were applied to mergers without any regard to the fact whether it was a business combination defined by IAS 22 as an acquisition or as a pooling of interest. While reporting goodwill, the item of AIAP was formally applied identically as in the case of a purchase of the net assets of a business, i.e. together with the revaluation of certain net asset items of the winding-down company.

The Third Period (2001). The next amendment made to the Commercial Code supplemented the former version by the statement that the value of a business can be reflected in accounting only on the basis of a specific legal act. The Accounting Act respected this fact in its amendment enforced in 2002. It resulted that in case of mergers, a method resembling the pooling of interest method was applied, without any acquisition differences. In case of a merger between the current investor and the investee, any identified difference was reported as a component of the equity.

The Fourth Period (2002). The amendment made to the Accounting Act presented examples when it is possible to use the fair value for measurement. The provision of this act and mostly other directives ("Chart of Accounts and Procedures in Accounting") were not unambiguous. The difference identified by mergers could but did not have to reflect valuation differences and factually also goodwill. The difference was mostly reported as AIAP. It could also be reported as a component of equity. This period created relatively good conditions for reporting acquisition differences in accordance with generally accepted accounting principles. However, the indefinite way of interpretation of these principles could lead to highly varying solutions of this acquisition difference.

The Fifth Period (2003). In this period, an implementary provision to the Acconting Act no. 500/1992 was enforced. As indicated above, this provision defined two items representing acquisition difference[7]:

a) VDANA (item of long-term tangible assets);

b) goodwill (item of intangible assets).

The definition of these items is applied also in case of mergers.

Goodwill from the investor´s acquisition in the investee was also reported in the equity on condition that both of them will be merged (on the basis of the Chart of Accounts and Accounting Procedures effective in 2003).

The Sixth Period (since 2004). This period is again accompanied by amendments to accounting directives (Accounting Act and its implementary provision). Furthermore, at the beginning of 2004, the Czech Accounting Standard 011 – Operations with

[7] All characteristics of these items indicated in the previous text are also appliable to mergers.

companies, was enforced. The area of reporting mergers followed the previous regulation. Goodwill emerging from the investor´s acquisition in the investee – in case of the merger of both of them – must not be reflected necessarily also in equity. The condition that both have to be merged has to be fulfilled (on the basis of the Chart of Accounts and Accounting Procedures effecive in 2003).

Conclusion:

The development of goodwill reporting in the Czech Republic in the period from 1992 can be characterised:

– The period really started with fundamental political changes at the end of 1989 and continued with the estabilishment of conditions for a market economy. This pre-period is characterised by penetrative privatisation.

– In the early 1990s, the fundamental conditions for a market economy were already estabilished. Although business combinations became a common part of economic life, we can not assess the development of goodwill reporting as satisfactory:

a) in reporting, the legal form of transactions related to business combinations is preferred to their economic substance;

b) Czech accounting legislation is not able to distinguish acquisitions from other types of business combinations;

c) there is no sufficient coordination between commercial legislation and accounting legislation;

d) rules of reporting goodwill (acquisition difference) changes frequently (by legal mergers almost annually). Changes of rules going on from period to period were often fundamental and led to a complete discontinuity in financial reports of merged companies (i.e. also discontinuity in reporting goodwill);

e) in accounting legislation, no transitional provisions were formulated, which could ensure consistence in reporting goodwill between periods in case of frequent changes in rules;

f) in accounting directives, there are different solutions of goodwill in consolidated statements, goodwill from a purchase of a company´s net assets, goodwill from legal mergers, even though they economically represent a single center of a problem – acquisition;

g) the consequense of all above mentioned problems is the fact that goodwill can be reported in various items of the balance sheet. (At the present time, in four or five items – AIAP, VDANA (both in long-term tangible assets), goodwill (in intangible assets), consolidation difference (in other than tangible, intangible and financial assets) and equity.);

h) with respect to the current trends in reporting of acquisition differences, a problem occurs: in this period, goodwill is treated analogically to the negative acquisition difference (the excess of the fair value of the acquired net assets over the cost of acquisition);

Problems mentioned above are evidently connected with the incapability of the only standard setter in the area of accounting in our country represented by the Czech Ministry of Finance. There is also an evident effort to the subordination of reporting to the legal form of the transactions – with no respect to their economic substance. The Ministry of Finance has not yet expressed its will to communicate with the public.

The problems connected with reporting goodwill are partly disappearing, because a whole range of large companies publicly trading their securities reports under IFRS after the entrance of the Czech Republic into the European Union.[8]

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[8] Numerous companies reported under IFRS, US GAAP and other accepted standards before the entrance of the Czech Republic into the EU, while simultaneously reporting under Czech accounting directives. The reason is that the reported information was required by foreign (sometimes also domestic) shareholders, creditors and other users.