Abstract: The paper aims to ascertain the level of harmonization of accounting in small and medium enterprises in the Czech Republic and the impacts arising from the harmonization process. On the basis of the conducted survey, enterprises show a reserved interest in reporting according to IFRS for SMEs. For enterprises, a decisive reason for accepting IFRS for SMEs could be expected gains; the dominant view, however, is that there are no gains following from accepting IFRS for SMEs. A minority of enterprises considers the greatest advantage for using IFRS for SMEs in the comparability of financial statements, strengthening the credibility of financial statements and strengthening the prestige of the business.


1 Introduction
Small and medium enterprises are facing problems in the endeavor to become involved in cross-border activities. Among the reasons for these problems, we can include disproportionate differences in legal systems of individual countries, the absence of unified accounting standards (i.e. until 2009), the absence of a unified taxation system, the limited supply of funds for these units, insufficient support and information and, of course, cultural and language differences. Consequently, implementation of a unified accounting system – IFRS for SMEs – appears to be a solution to these problems. IFRS for SMEs can thus be considered to be an instrument for facilitating the crossing of borders for small and medium enterprises (Strouhal, 2009). For the purposes of harmonizing published financial statements of small and medium-sized enterprises, the first steps in the direction of forming standards that would be simple for SMEs (and that would at the same time fully satisfy all users of the financial statement) were taken as early as 2009. Although the actual implementation of IFRS to small and medium enterprises is somewhat complicated and costly, subsequent reporting according to IFRS is simpler for businesses (Paseková et al, 2010). Of course, negative reactions have also appeared with the attempts to implement IFRS for SMEs. In the world of globalization and international trade, SMEs do not really play such a fundamental role, and the harmonization of their financial statements is unnecessary. On the other hand, small and medium-
Sized enterprises often seek investors abroad, and the latter would subsequently require financial statements in a comparable form which would be suitable for consolidation. Simply put, IFRS for SMEs should be simple standards, but ones of high quality and suitable for SMEs, whilst not burdening accounting units when compiling statements. These standards will use the IFRS conceptual framework as a departure point and will thereby simplify and facilitate the subsequent possible transfer to full IFRS. Of course, these standards have to monitor the needs of individual users of financial statements (Strouhal, 2009).

Implementation of IFRS for SMEs should be simpler for small and medium-sized enterprises than implementation of full IFRS precisely for reasons of simpler processing and reduced reporting responsibilities. On the other hand, it is in fact a certain simplification that consequently presents a smaller number of variants and alternatives than what is offered by full IFRS and, as a result, IFRS for SMEs is more focused on rules. Simplification of reporting also brings with itself limitation of support and guidance when implementing individual standards, which could ultimately make adoption of full IFRS simpler, as support is significantly higher here. IFRS for SMEs could also entail a first step towards adoption of full IFRS, especially among companies considering IPO (Seifert and Lindberg, 2010).

2 Literature Review
The state is certainly the largest user of accounting information, which is why Albu et al (2013) emphasise the strong connection between the system of taxation and accounting. It is precisely accounting aimed at the needs of the state (i.e. the requirements of taxation) that could result in a reduced quality of financial reporting. On the basis of a survey which authors (Albu et al, 2013) conducted in the Czech Republic, Hungary, Rumania and Turkey, it was found that managers of businesses based in these countries are primarily interested in tax accounting rather than in financial reporting. From this it follows that financial statements are prepared according to the requirements of the highest and largest user, i.e. the state. Banks follow this dominant user, as they most frequently provide accounting units with funds. Albu et al, however, state that banks in these countries are not satisfied with the quality of accounting statements. Neag, Masca and Pascan (2009) focused on surveying users of financial statements among SMEs. According to their survey, banks are the largest users of financial statements in view of the fact that small and medium enterprises are dependent primarily on funds provided by banks. A bank loan is far more accessible for smaller businesses than searching for partners interested in developing small enterprise. Small businesses, however, face considerable problems gaining bank funds. They frequently do not have sufficient collateral for a bank loan at their disposal; they also mostly do not even have the necessary information on the conditions of credits. Further problems include also insufficient financial performance or greater risk in view of the insufficient experience of the owners. Small and medium enterprises follow various strategies, but given the above-mentioned reasons, their main goal is mostly to survive and possibly grow rather than maximizing profits. Clients and business partners are next in rank after bank users of financial statements. Stakeholders and managers are in most cases shifted to the last place.

According to the results of the survey conducted among companies which had already undergone the transition to IFRS in England and Italy, Fox et al (2013) present the following course of implementation. In view of the fact that a time-consuming and complex process is at issue, the first step is the choice and appointment of the work group or project team which, in the context of its operation, proposes a strategy including recommendations for IT, a system of management, a reporting system and an accounting outline. All IAS, IFRS and IFRIC are subsequently examined closely. The third phase stems from the ascertainment as to which standards are important for the business and which are not. Important standards have to be scrutinized carefully and the differences between these standards and the national adjustment of the given problem have to be determined. Subsequently, the manner by which the given standard is to be implemented, which changes are required for it and how the financial statement and supplements are affected are determined. The fourth phase includes informing all accountants in the group about the new standards and policies and also includes an auditing committee. It is necessary to ascertain which information will be necessary for the compilation of financial statements on the basis of IFRS. In view of the fact that implementation of IFRS entails higher demands on information, demands on information systems are thus also increased. The closing phase involves commencement of accounting according to IFRS and subsequent quantification after departing from demanding standards.
In connection with the above-mentioned work schedule during the transition to IFRS, mostly one-time expenses are recorded by companies which have already undergone the transition. In subsequent periods, expenses naturally also appear, but their enumeration is relatively difficult. These primarily include expenses on time spent consulting with regulators or auditors, possibly employees’ unpaid time and effort. Albu et al (2013) state that it is especially expenses for training accountants that make up the most significant item in connection with implementation of IFRS. The level of education and experience of accountants in the field of IFRS is considered very weak in countries where their survey took place, i.e. in the CR, Hungary, Rumania and Turkey. As has already been stated, it is in precisely these countries that the state is the largest user of the financial statement, from which the obligation stems for units that account in these countries to keep accounts also according to national adjustments in connection with the resulting tax obligation. Keeping double accounts and compiling double financial statements will therefore entail a significant expense. Further expenses are then identically classified as expenses for procuring necessary IT equipment and expenses for external consultants and auditors.

Of course, profits are also expected from implementation of IFRS. The main benefit expected, according to Albu et al (2013), especially includes the securing of greater transparency of financial statements and the quality of accounting information. Financial statements compiled according to IFRS will of course improve comparison on an international level. This will in itself bring an influx of foreign investors and further financial opportunities, such as reducing expenses on capital. One should also not forget the possibility of expanding enterprise not only on a regional, but also on an international level. According to Fox et al (2013), improvement of a company’s reputation, improvement of communication and transparency outwards from the company are interesting benefits from the implementation of IFRS. Further profits are then rather vague as benefits in the form of higher transparency, comparability and higher uniformity of financial statements will probably appear after a medium to long period. According to Fox et al (2013), most companies are rather dubious about profits from reducing expenses on capital.

According to Albu et al (2013), benefits and negative aspects of transition to IFRS can thus be summarized by stating that a clear plus is the focus of accounting on the decision-making process of managers and proprietors, which does not, however, counterbalance the administrative burden which this transition brings with itself. This is caused especially by the double accounting obligation in order to fulfil tax obligations. Generally, companies considering transition to IFRS are therefore more concerned with expenses connected thereto than they are in profits. Litjens et al (2012) also tend towards the assumption that the expenses of implementation of IFRS are caused primarily by the requirements of regulators, the fulfillment of which requires the execution of certain administrative activities. The resultant amount of expenses depends on the level of difference between national accounting standards and IFRS.

3 Research Design

The representatives of 157 businesses were approached for the survey of SMEs in the CR according to IFRS; structured interviews were held with them regarding the usage of IFRS in their businesses. All approached businesses fell into the category of small and medium enterprises in classification according to IFRS. The interviews ascertained whether the business is connected with a foreign partner, whether it reports according to IFRS at present, possibly whether they are planning to report according to IFRS in the future and how they view the benefits stemming from the use of IFRS.

4 Results

The main datum that was monitored was whether the business reports according to IFRS, possibly also whether it is planning reporting according to IFRS. The proportional representation of responses is graphically represented in Figure 1.

Figure 1. The proportional representation of businesses according to whether they report or are planning reporting according to IFRS.
It is clear from the graph that the predominant part of businesses (over 80%) does not use IFRS in their reporting and are not planning to use it. The remaining two categories are represented roughly identically.

Reporting according to IFRS is voluntary in the CR, which is why it could be expected that IFRS will mainly be used by businesses forming a consolidated group with foreign participation or by businesses that have a major foreign business partner.

The ratio of monitored businesses forming a consolidated group with foreign participation is 30.6%. The ratio of businesses with a major foreign supplier or purchaser is 75.3%, whereas 61.0 of businesses currently have both a major foreign supplier and purchaser.

Figure 2 and 3 depict percentage ratios of monitored businesses which report or intend to report according to IFRS and businesses which do not report according to IFRS and do not intend to do so, depending on whether they are part of a consolidated group with foreign participation (Figure 2), or more precisely, whether they have or intend to have a major foreign business partner (Figure 3).

Figure 2. Percentage of representation of businesses according to whether they report or possibly plan to report according to IFRS, depending on whether they are part of a consolidated group with foreign participation

Figure 3. Percentage of representation of businesses according to whether they report, whether they possibly plan to report according to IFRS, depending on whether they have or intend to have a major foreign business partner

Data shown in Figure 2 and 3 do not show the possibility of confirming the hypothesis about use of IFRS especially by businesses forming a consolidated group with foreign participation or businesses which have a major foreign business partner. From the data it follows that the proportion of businesses that do not and do not intend to report according to IFRS predominates significantly. It is further evident from the data that probably only a third (30.6%) of the monitored businesses are part of a consolidated group with foreign participation and the majority (80.0%) of businesses have or plan to have a major foreign business partner.

It seems that businesses view expected benefit as being a decisive factor for adopting IFRS. The enumeration of expected benefits of reporting according to IFRS and their relative number given
by the representatives of businesses approached is shown in Figure 4.

Figure 4. The relative number of expected benefits of reporting according to IFRS

The clearly predominant view is that adoption of IFRS will bring no advantages.

Businesses consider the strongest advantage to be the comparability of financial statements, followed by the strengthening of the credibility of the business, benefits for reporting and strengthening the prestige of the business. Advantages stemming from access to EU funds and strengthening the possibilities of acquiring a credit follow only after these benefits.

From the result of the survey, it follows that businesses view the possibility of adoption of IFRS with reserved interest. Despite a relatively small proportion of businesses that report or intend to report according to IFRS in the future, businesses are expressing interest in educating their workers in this area. The proportion of businesses interested in education in the area of IFRS is 27.8 %, which exceeds the number of businesses reporting or intending to report according to IFRS by 10 %.

Businesses reporting according to IFRS use a transition cross-walk for compiling financial statements or keep double accounting records according to Czech accounting principles and according to IFRS. Business representatives stated that the main problem in the transition to IFRS was financial leasing, long-term receivables and liabilities. Expenses connected with the transition to IFRS were elicited by the need to retrain employees; further expenses included salaries of newly-accepted professional accountants.

5 Discussion

The survey has proved that if SMEs are not immediately obliged to compile a financial statement in accordance with IFRS, they are not interested in the problem of international accounting standards. In the Czech Republic, accounting and the tax system are closely connected. Czech tax regulations do not enable using a result of economic activity according to IFRS for the calculation of income tax. The state is the main user of outputs from accounting in relation with the need to adjust the amount of tax obligation. This is an unfavourable ratio of outlaid expenses and benefits gained. The predominant view among Czech businesses is that possible implementation of IFRS bring no advantages to them. They see advantages in unification, common comparable reporting of results of economic activity, followed by credibility of the business, reporting benefits and strengthening the business’ prestige. It must be added that Czech businesses are reluctant to provide the public with information as to their economic activity. They are afraid that they will leak some of their know-how or practices in compiling financial statements. As regards providing information about their enterprise on the market, they see more disadvantages than advantages such as improved competitive ability stemming from greater transparency of the business. Inconsistency, imprecision and ambiguity in the Czech national accounting system leads to distortion of accounting information, and to opening avenues for the possibility of creative accounting. The aim of IFRS is transparent, clear, neutral, complete, comparable and undistorted recording of accounting transactions and results.

6 Conclusion

The sector of small and medium enterprise has an irreplaceable role in the context of market economy. Small and medium entrepreneurs, who represent over 1 million economic subjects, represent 99.84 % of all entrepreneurs in the Czech Republic. They likewise employ over 1.8 million employees and participate in approximately 51 % of export and about 56 % of import. Small and medium enterprises play a major role for the development of the endogenic potential of individual regions in the Czech Republic, as they are entrepreneurially and
socially connected to a given region in a significant way and make up the regional entrepreneurial backbone (Businessinfo, 2012).

If they are part of a multinational group, small and medium enterprises in the Czech Republic have the possibility to choose between international accounting standards and Czech accounting regulations. The problem of the Czech Republic is that national legislation does not enable fixing of an income tax base from financial statements compiled according to IFRS and businesses therefore have to compile financial statements according to two different standards, which entails a major administrative burden. Measures leading to a reduction of administrative burden should thus precede possible legislative enactment of an obligation for SMEs to report according to IFRS. The representatives of SMEs are rather sceptical about implementation of IFRS among SMEs. According to them, IFRS caters more to the needs of large businesses and is too complicated for SMEs. For proprietors of SMEs who run a business themselves, this entails a further burden. The European Association of Small and Medium Enterprises is of the impression the implementation of IFRS would have a negative influence on SMEs at this stage and calls on the Commission to adjust IFRS so as to be acceptable and comprehensible for SMEs (CEBRE, 2010).

The issue of a new directive on annual financial statements was major step towards strengthening the usability of IFRS for small and medium enterprises. The directive was enacted by the European Parliament (EP) in combination with the Council of the European Commission in 2013 and replaces the so-called Fourth and Seventh Directive of the EP and Council. The aim of this step is to increase the comprehensibility of the text of the new directive both for legislators and for all its users. The main change in the directive is the implementation of general principles of “significance” and “the priority of economic content to legal form”, which is meant to ensure improved comprehensibility of financial statements. The directive deals with reducing administrative complexity of reporting in small and medium-sized enterprises and fixes limits of net turnover, balance sum and number of employees for ranking accounting units into the category of small and medium-sized enterprise.

From the perspective of financial reporting, one can express the hope that the enactment of the new directive on annual financial statements in the European Union will lead to a change in the attitude of small and medium-sized enterprises as regards the implementation of IFRS (European Union, 2013).

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References:


