IS FAIR VALUE CURRENTLY IN COMPLIANCE WITH THE PRINCIPLE OF TRUE AND REAL REFLECTION IN THE CZECH ACCOUNTING?

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Abstract


Information value of data provided by the accounting is in significant extent dependent on the method of valuation used in accounting of individual economic operations especially on the method of valuation of individual items in the financial statements. Financial expression of the individual value of assets and liabilities of the company (including the balance sheet of the company), as well as the amount of equity, depend just on specific method of valuation of assets and liabilities that each entity used in the accounting system. This fact has also a crucial influence on the overall level of financial analysis since mostly aggregated data in the appropriate valuation gained from various parts of the financial statements are the input data for financial analysis.

Certain items of assets and liabilities are valued at fair value at the balance sheet day in the Czech accounting in compliance with the global developments. The concept of fair value in Czech accounting is regulated by Czech Accounting Act in § 27 paragraph 4 and 5. The Czech regulation of the concept of the fair value is based on its detailed definition of the IAS / IFRS, including cases of practical use. The aim of this paper is to answer the question whether currently the fair value in the Czech accounting reflects the reality, based on definition of its content in accordance with applicable legal regulation. Partial aim is to identify specific cases of its application in the accounting of various types of business entities in the Czech Republic in existing practice. The paper also identifies methodological procedure of recording changes resulting from the valuation or revaluation of various types of assets at fair value, including their impacts on the financial statements.

An integral part of the paper is the perspective of IAS / IFRS on fair value in accounting, so the definition of the fair value and also there is historical development of valuation of assets according to IAS / IFRS. The concept of fair value as a possible method of valuation of assets in European accounting law is also mentioned.

valuation of assets and liabilities, fair value, market value, qualified estimation
2. Purchasing power of monetary unit, in which are data recorded in accounting, is usually also changing (Kovanicová, 2005).

It is also necessary to clearly define the essential moments, determined by specific facts, which leads to valuation. These are fundamentally following moments:
1. Valuation during acquisition (creation) of an asset, respectively a liability.
2. Valuation during possession of assets and the existence of liabilities (for the purposes of compiling financial documents).
3. Valuations during disposal of assets, respectively payment of liabilities (Dvořáková, 2008).

It is necessary to take into account the fact that the starting point for evaluating the individual items of assets and liabilities is the precautionary principle.

MATERIAL AND METHODS

The main aim of this paper is to answer the question whether the very often discussed fair value in the Czech accounting reflects currently the reality, based on definition of its content in accordance with applicable legal regulation. Partial aim is to identify specific cases of its application in the accounting of various types of business entities in the Czech Republic in existing practice. The paper also identifies methodological procedure of recording changes resulting from the valuation or revaluation of various types of assets at fair value, including their impacts on the financial statements. An integral part of the paper is the perspective of IAS / IFRS on fair value in accounting, so the definition of fair value and also there is historical development of valuation of assets according to IAS / IFRS. The concept of fair value as a possible method of valuation of assets in European accounting law is also mentioned.

The starting point for exploring the outlined issue is mainly an analysis of the legal norms regulating the observed problems in the Czech Republic, namely the Accounting Act No. 563/1991 Coll. as amended, and applicable regulations of the Ministry of Finance of the Czech Republic, both with regard to the definition of individual cases of valuation at fair value and also with regard to their accounting recording in different types of business entities. At the same time relevant provisions of IAS / IFRS related to this issue were similarly analyzed.

Other used sources include professional and scientific publications dealing with the observed issues in the Czech Republic but also abroad, including statements and opinions of the Council of the EU for Economic and Financial Affairs.

Methods based on the principles of logical thinking, in particular the method of deduction, are used in the paper apart from methods of description, comparison and mainly analysis. Method of synthesis for the purposes of formulation of own conclusions is used in the final part of the paper.

THEORETICAL-METHODOLOGICAL BASES

The concept of fair value according to IAS / IFRS

Valuation at fair value is not compared with other valuation techniques used for too long.

In 1995 the International Accounting Standards Committee (IASC) approved a standard, which included valuation at the fair value (standard IAS 32 – Financial Instruments: Publication and Presentation) (Krupová, 2009).

This standard emphasizes that the fair value is a market valuation, not a valuation based on the specifics of the accounting entity. The base for determining the fair value are either data obtainable directly on the market, which exist independently of the accounting entity or there are not market data and then the entity makes estimation.

In this case in the process of determination of fair value, it is necessary also to take into account the potential risks arising from the complexity of the chosen valuation model (Zárová, 2008).

The basic concept of valuation under IFRS is contained in the Framework in paragraphs 99–101. Fair value is one of them. Conceptual framework of IAS / IFRS says that individual types of valued bases can be applied in various extents and in various combinations (Svaz účetních, 2005).

Application of the Standard containing the valuation at fair value was determined by January 1, 2001. European law regulating accounting responded considerably delayed to this significant change in the valuation. Directive, amending all previously issued directives of the EC for accounting, was issued in autumn 2001 based on the point of view of Economic and Social Committee to the application of fair value published in 2000, and to the proposal of the Commission in the same year. Directive from 2001 introduced a new valuation that is fair value into the environment of European law.

The fair value of an asset or liability is defined as the amount for which an asset could be acquired/exchanged or for which the liability could be settled in common transaction (under normal conditions) between knowledgeable and willing partners, i.e. during a transaction that is not forced nor a liquidation sale (Kovanicová, 2005).

In the case of determination of the fair value is characteristic that it is based on the current situation on the market, so from conditions on the market that are currently detectable.

In spring 2009 the International Accounting Standards Committee in London (IASB) published separate draft of standard “Fair Value Measurement – Valuation at fair value.” Its aim is to better clarify the definition of fair value, to extend the reporting of fair value and to establish a single source for all types of valuation at fair value (Kovanicová, 2009).

Price of an active market (if such market exists) is always preferred during finding out the fair value. If
market price of active market is not available, we can use an alternative (Šrámková, Janoušková, 2004):
- price of the last transaction if there was no change,
- price of similar assets taking into account differences,
- present value of future cash flows.

Inclusion of the fair value as a method of valuation in the accounting is not easy. If it is normally traded with an item which should be valued by this value, then current market price is its fair value. For non-tradable item, the fair value can be determined by reference to current market value of other, similar items. If it is not possible, it is necessary to use estimations of benefits/ sacrifices which the item will bring (Kovanicová, 2004).

**Standards define so called fair value model.**

Two variants of this model can be distinguished:

- item was valued on bases of historical costs at initial recognition, then the company decides for its revaluation at fair value (examples might include land and buildings which in the course of their lives go through significant and volatile changes in market value, these assets are not subsequently reported in the appropriate valuation), reduced by accumulated depreciation (for depreciable assets) and by any accumulated damages / losses from reduction in value. This is the reason why this model is known as the revaluation model. If (for example due to increase in market prices) the new fair value is higher than the previous one, surplus from the revaluation arises that affects shareholders' equity. If in the future there would be a reduction in the value of this asset, it is necessary to reduce previously reported surplus from revaluation in the shareholders' equity;

- in the second case, when the item was already revaluated at fair value in initial recognition then it is continued in revaluation at the new fair value (Kovanicová, 2005).

Changes in the revaluation of fair value are recorder in accounting according IAS/IFRS either in the balance sheet or in the income statement.

**Fair value model (balance sheet)**

This model is used for the valuation of financial assets suitable for sale under IAS 39 – Financial Instruments: Accounting and Revaluation. Changes in fair value both upward and downward shall be charged in the balance sheet – into shareholders’ equity. These financial instruments include realizable financial assets and investments held to the maturity (Dvořáková, 2008).

**Fair value model (Income statement)**

It is practically implemented in the following standards IAS 39, IAS 40, IAS 41. Standard IAS 39 – Financial Instruments: Accounting and Valuation, Financial instruments reported at fair value and revaluated in income statement are valued on its base. These are financial assets and derivatives held for trading, and financial assets and derivatives, for which the entity used the right to valuation at fair value upon initial recognition, so called the fair value option.

In addition to financial assets there are included:
- Provided loans and receivables – if the entity expects to sell these assets, it is necessary to value them at the real value.
- Investments held to maturity if the entity will include them among the financial instruments for trading, we will value them at fair value in income statement. It does not include derivatives.
- Realizable financial assets – non-derivative financial assets that are designated as realizable or not included in previous chapters. They are valued at fair value and the impact from the revaluation will be reflected in the balance sheet (Dvořáková, 2008).

**IAS 40** – Investments in real estate deals with real estates, which are held in purpose of capital appreciation or rental income. A company can choose either this model or purchase cost model. Fair value investment into real estate has to express the current state of the market at the balance sheet date, it must not reflect future expectations, nor be based on market prices which are not current. Determination of fair value is based on prices on an active market with similar real estates, in the same location and under the same conditions. If we do not know the prices in an active market, we can use the current prices in an active market of a different nature or the present value of the future cash flows (Krupová, 2009).

Under **IAS 41** – So called biological assets are valued by this model in Agriculture. This standard requires the valuation at fair value since the time of initial recognition of biological assets. If there is an active market, the company uses market-determined prices or values. If there is no an active market, we determine the fair value according to the price of the transaction, which took place for the last time, according to market prices for similar assets with adjustment reflecting the differences or the price determined in accordance with sectoral measures. An accounting entity may use the present value of expected future net cash flows. The Standard prefers consistent recording of differences from revaluation in income statement way, i.e. it influences income from operation in the period in which the revaluation is done (Bohušová, 2008).

**The concept of fair value in the Czech accounting**

Certain items of assets and liabilities are valued at fair value at the balance sheet day in the Czech accounting in compliance with the global developments. Fair value has been introduced in the Czech accounting by an amendment to the Accounting Act in 2001. Valuation of selected items (mainly from the capital assets) at so called fair value was introduced into the Czech accounting.
with effect from January 1, 2002. This is an effort to make real accounting valuation, which is otherwise dominated by historical (purchased) prices corrected only indirectly through deprecations and provisions, and moreover always only downwards. There is clearly true observance of the accounting principles of historical prices and the precautionary principle. There is no doubt that the current (actual) value of many items of property may on the contrary logically increase with time (typically in the case of certain real estate, art objects and works). But such way of reflecting actual price of the assets through the possible accounting procedures is currently not possible.

The concept of fair value is in Czech accounting regulated in the Czech Accounting Act § 27 paragraph 4 and 5. According to § 13a of Accounting Act No. 563/1991 Coll., as amended by later regulations, on valuation at fair value (and the valuation at the equivalence or countervalue) the accounting entities which keep their accounts in a simplified scale, according to § 9 of the Accounting Act, do not apply valuation at fair value.

On the contrary all other entities that are liable to keep accounts in full scale have the obligation to value at fair value. These are primarily commercial companies and cooperatives (regardless of whether they are liable to mandatory audit or not) and natural persons liable to compulsory audit of financial statements.

Czech accounting legislation understands the fair value as impartially determined supposed, respectively, realistically achievable under market conditions existing at the date of its determination. The Act does not define this value, it only defines that for its determination will be used:
1. Market value;
2. A qualified estimation or opinion of an expert, if the market value is not available, or it does not represent sufficiently a fair value; methods of the valuation used in qualified estimation or opinion of a qualified expert must provide a reasonable approximation to the market value;
3. Valuations under special regulations, if it is not possible to proceed according to the two previous points (Kovanicová, 2009).

Market value means a value that is announced on the national or foreign stock exchange or on another regulated market. According to this Act, an entity will apply for valuation a market value that is announced at the time not later than the moment of valuation, and the most approaching the moment of valuation. If the assets are maintained at the national stock exchange, the market value means the closing price announced by stock exchange in the working day in which the valuation is carried out. In the case that assets are not maintained at the national stock exchange and is listed on foreign stock exchanges, market value means the highest price of the closing prices, which was achieved in approved foreign markets of stock exchanges in the working day in which the valuation is carried out. In case of different market than the stock market, market value means the price valid at the date in which the valuation is carried out. If in the day in which the valuation is carried out, given markets do not work, the price announced on them in the last working day preceding the moment of valuation is applied.

Provision § 25, paragraph 3 of the Accounting Act, which is directly a defined precautionary principle in accounting is used in case of valuation at fair value. Accounting entities accounts these resulting differences in valuation from this valuation in accordance with accounting methods.

If it is not possible to objectively determine the fair value, the valuation by methods under § 25 is considered as this value. Bonds and other fixed income securities are valued at the balance sheet date or to another moment to which financial statements is compiled, by the purchase price increased or decreased by interest income or expense. If the valuation of claims include introduced income or expense it may be increased or decreased in the same way. The share, which represents the participation of controlling or significant influence, can be valued by equivalence (countervalue). If an entity applies this method of valuation, it is liable to use it for valuation of all such shares.

**RESULTS AND DISCUSSION**

The fundamental differences in valuation at fair value between the Czech accounting legislation and IAS / IFRS

IAS / IFRS standards are tools that should help as much as possible to the harmonization in the field of accounting. It is not a law, it does not impose any binding procedures, but it defines conditions for valuation, reporting and recognition of individual elements of financial statements.

The whole system of IAS / IFRS standards is excellent for its sophistication, which clearly contributes to higher reliability of data on the management of specific businesses.

Czech legislation does not mention at all some issues dealt with in these standards. And not just because of this, it would be appropriate to include fundamental regulation defined in IAS / IFRS into the Czech legislation. Adapting to the requirements of IAS / IFRS is a demanding and complex process, and therefore it cannot be made at once. Gradual implementation of these requirements into the national legislation of the Czech Republic with a primary focus on the possibility of extending valuation at the fair value but with clear definition of its content would be appropriate.

Czech accounting legislation recognizes the valuation model by purchase costs. Revaluation to fair value is allowed only for certain securities, derivatives and claims. Revaluation to fair value is
Is fair value currently in compliance with the principle of true and real reflection in the Czech accounting? 103

It seems that IAS / IFRS more realistically record the value of long term fixed assets in the financial statements and their users are getting reliable information about the economic situation.

Advantages and disadvantages of application of fair value in valuation of assets

It is quite obvious that the fair value as a valuation base of asset clearly increases the explanatory power of financial statements, because it places greater emphasis on the principle of fair reflection of the reality – it properly and realistically reflects the assets and the real situation of the company. It also more corresponds with the requirements of the market and expectations of market players and it contributes to the comparability of information, reported by other companies internationally, that contributes to greater opportunities to raise capital from foreign investors.

Financial cost, which results from the time-consuming of the whole process is seen as a disadvantage in the implementation of fair value as a valuation base.

If fair value cannot be determine directly in an active market, then it is necessary to use the services of qualified experts, but the results of their work have to be understood only as estimation, because different experts may have different opinions and interpretations. With this fact are also associated high demands on the knowledge of accountants, managers and auditors.

I think that the advantages of valuation at fair value dominated over the disadvantages, so I would recommend the gradual adoption of elements of international accounting standards. Czech accounting legislation does not mention some fields at all but they can be very significant or they are indeed mentioned, but very marginally. I would expand the use of fair value in the Czech legislation, because the information using the fair value is less distorted in comparison with the historical value of the assets, than in the current Czech legislation.
Does the fair value express reality in the Czech accounting?

The EU Council for Economic and Financial Affairs comment the issue of valuation at fair value in its press release in July 2009. In principle it recognizes the benefits of valuation at fair value but the crisis has highlighted that the current valuation of certain financial assets that are a common part of trading portfolio of accounting entities (mainly of banks) may undervalue the risks in times of prosperity and conversely overvalue in a recession.

For example in the cases that:
1. financial instruments, for which it is not appropriate, are valued at fair value,
2. market prices are used when markets are illiquid,
3. model prices are based too much on prices of illiquid markets.

Valuation at the market value carried out in many categories of financial instruments should therefore be reviewed and modified as needed, particularly with regard to uncertainty of valuation, the reality of the business model of banks, suggested period of holding of financial instruments and the actual liquidity of markets.

From this reason the Council therefore supports such views and objectives based on the change in the relevant accounting rules and also it reminds the objective of achieving a single set of standards at global level and improving the management of process of creation of accounting standards (Rada evropské unie pro hospodářské a finanční věci, 2009).

Own proposals and conclusions

In my opinion, there is a difference between the fair value, which is a reliable indicator of the value of assets or liabilities and fair value, which is the result of subjective assumptions of accounting entity, although in its determination it takes into account all known conditions and influencing factors in the time of its determination. Therefore only those components of assets and liabilities that have clearly identifiable market value, which is practically fulfillment of the concept of fair value, should be valued at fair value. If the assets and liabilities are traded in active markets, there is absolutely no problem to determine their fair value, while for a number of assets and liabilities for which the accounting rules required the valuation at fair value, but there is not objectively any market value. If it is not possible to determine the fair value of certain items of assets or liabilities on the basis of an active market, it is necessary for the needs of valuation to use qualified estimation based on generally accepted valuation models. We should have in mind that determining the fair value using various mathematical models often leads to very different results, which means if fair value determined in this way is sufficiently reliable, relevant and comparable, as it is required by the basic accounting principles so that it can be possible to use it in accounting. Such models are commonly based on assumptions about future conditions, transactions or events whose result are of course uncertain and will be liable to changes over time.

Another very important factor is the subjectivity of each individual, which “fulfills” the model with specific values. Such an entity would, among other things, also had very detailed knowledge of all facts, including all specifics, based on specific economic activities of the company (form the nature of business), which currently often cannot be ensured in practice. This requirement is of course important because the lack of objective data may prevent a reasonable estimation.

The practical fulfillment of this requirement is absolutely necessary especially in cases in which the asset or liability or the valuation method is very complex. These are often derivative financial instruments or components of intangible assets acquired in business combinations. These cases make necessary to assess specific aspects arising from the nature of the accounting entity and its scope of activities.

Finally, once the method of valuation of the item in a company is chosen, it should be used consistently under common conditions. However, this requirement cannot be realized completely, but it is absolutely necessary to continually assess whether a consistency is appropriate from the point of view of the potential changes in the environment or circumstances affecting the accounting entity, or changes in the requirements prescribed by the applicable financial reporting system of the company. If the company would consider a change in valuation methods, it must be able to demonstrate that “new” method of valuation is preferable in terms of fair reflection of the reality, or this change is implemented based on the requirements of the financial reporting system of the company.

That is the reason why I think that there should be defined bound between such fair value, whose content will be so reliable and clear, that it will be possible to include it without any doubt in the financial statements, and fair value, which is the result of different estimations or outputs from different analysis, which in my opinion could be given as additional information in the annex of the financial statements.

Trading of some index and equity derivatives instruments through the Prague Stock Exchange could be an example of the discussion. Vast majority of financial derivatives on the Czech market is still traded only OTC through financial institutions. It is therefore not possible to determine the “real” fair value of these tools from an active market. For the purpose of valuation it is again necessary to use a qualified estimation based on generally accepted valuation models.

Models for the valuation of financial derivatives are based on determining the present value of future cash flows from these instruments. A slightly more
complex approach is forming the yield curve for the purpose of discounting future cash flows and the subsequent modeling of expected cash flows based on various types of financial derivatives. Many valuations based on estimations, including valuation at fair value, are inherently imprecise. In the case of valuation at fair value, especially those which do not involve contractually secured cash flows or for which are not available market information when making the estimation, so estimations of fair value often involve uncertainty in both the amount and timing of future cash flows.

**Definition of cases of valuation at fair value by the Accounting Act No. 563/1991 Coll. In actual version, and the Regulation of Ministry of Finance No. 500 / 2002 Coll. In actual version, which implements certain provisions of Act No. 563/1991 Coll. on Accounting, as amended, for accounting entities that are entrepreneurs accounting in double-entry bookkeeping in the actual version.**

Accounting Act defines the different types of assets which are valued at fair value. The Regulation solves both the definition of valuation differences when applying the fair value and valuation of equivalents and their subsequent recording in accounting. Valuation differences are divided according to the content (i.e. facts that they are related to).

- Definition of cases of valuation at fair value by Regulation of Ministry of Finance No. 501/2002 Coll., implementing certain provisions of Accounting Act No. 563/1991 Coll., as amended, for accounting entities that are banks and other financial institutions in actual version and by Regulation of Ministry of Finance No. 502/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll. on Accounting, as amended, for accounting entities, which are insurance companies in the actual version.


### I: Defined cases of valuation at fair value in accordance with Accounting Act No. 563/1991 Coll. in actual revision, and Regulation of Ministry of Finance No. 500/2002 Coll.

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Selected securities (exceptions are in law)</td>
<td>Differences in valuation in application of fair value and valuation of equivalents for securities and shares</td>
</tr>
<tr>
<td>Derivatives</td>
<td>Differences in valuation in application of fair value to hedging derivatives</td>
</tr>
<tr>
<td>Financial position with exceptions in law</td>
<td>Differences in valuation in application of fair value to derivatives for trading</td>
</tr>
<tr>
<td>Assets and liabilities when special legislation implies valuation at fair value</td>
<td>Differences in valuation in application of fair value for claims, which accounting entity acquired and designated to trading</td>
</tr>
<tr>
<td>Part of the assets and liabilities hedged by derivative</td>
<td>Differences in valuation in application of fair value in national merger or division of accounting entity</td>
</tr>
<tr>
<td>Claims that the entity acquired and designated for trading</td>
<td>The method of transformation in cross-border merger</td>
</tr>
<tr>
<td>Liabilities to return securities that the entity stole and did not received back till the time of valuation</td>
<td></td>
</tr>
<tr>
<td>For selected entities, assets held for sale, with exceptions for stocks</td>
<td></td>
</tr>
<tr>
<td>Cases in which the Law on Transformation of Commercial Companies and Cooperatives implies liability of valuation of assets at fair value</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** own processing on the basis of legal norms

### II: Defined cases of valuation at fair value according to the Regulation of Ministry of Finance No. 501/2002 Coll., in actual version, and Regulation of Ministry of Finance No. 502/2002 Coll., in actual version

<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Differences in valuation in application of fair value (in relation to the Accounting Act)</td>
<td>Investments that are classified as financial position and financial position of life insurance, if policy holder carries the investment risk</td>
</tr>
<tr>
<td>Differences in valuation in application of fair value to derivatives</td>
<td>Technical reserves</td>
</tr>
<tr>
<td>Differences in valuation in application of fair value during conversion of an accounting entity</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** own processing on the basis of legal norms
The exceptions are the relevant accounts of assets and liabilities for which changes in the fair values are accounted as financial costs or yield (for securities held for trading), or relevant components of assets and liabilities for which changes in fair values or changes in revaluation of equivalences are accounted using the account 414 – differences in valuation from revaluation of assets and liabilities.


<table>
<thead>
<tr>
<th>Revaluated assets</th>
<th>Accounting recording</th>
<th>Change in fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Recording in balance sheet</td>
</tr>
<tr>
<td>Equity securities held for profit in a short period of time</td>
<td>251</td>
<td>X</td>
</tr>
<tr>
<td>Debt Securities</td>
<td>253</td>
<td>X</td>
</tr>
<tr>
<td>Equity securities (decisive and significant influence), possession of more than 1 year</td>
<td>061, 062</td>
<td>Not determined</td>
</tr>
<tr>
<td>Equity securities (minority influence), possession of more than 1 year</td>
<td>063</td>
<td>Group 41</td>
</tr>
<tr>
<td>Equity securities (minority influence), possession of less than 1 year, other than trading purpose</td>
<td>257</td>
<td>Group 41</td>
</tr>
<tr>
<td>Debt securities with the intent to hold to maturity, possession of less than 1 year</td>
<td>256</td>
<td>Not determined</td>
</tr>
<tr>
<td>Bonds acquired in primary issues not held for trading (holding more or less than 1 year)</td>
<td>Group 25, 255</td>
<td>Not determined</td>
</tr>
<tr>
<td>Derivatives held for trading</td>
<td>373, 376, 377</td>
<td>X</td>
</tr>
<tr>
<td>Derivatives hedging the fair value of the asset or liability</td>
<td>373, 376, 377</td>
<td>X</td>
</tr>
<tr>
<td>Derivatives hedging expected cash flows</td>
<td>373, 376, 377</td>
<td>Group 41</td>
</tr>
<tr>
<td>Balance sheet asset or liability arising from a particular risk hedged by the hedging derivative</td>
<td>Class 0, 2, 3</td>
<td>X</td>
</tr>
<tr>
<td>Assets and liabilities in the transformation of commercial companies and cooperatives (national merger or division of an entity, cross-border mergers) - with exceptions</td>
<td>Class 0, 1, 2, 3</td>
<td>Group 41, account 418 – Differences in valuation in conversion</td>
</tr>
<tr>
<td>Claims acquired and held for trading</td>
<td>378</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: own processing on the basis of legal norms

IV: Accounting recording of fair value and its changes in accounting of banks (Regulation of Ministry of Finance No. 501/2002 Coll.)

<table>
<thead>
<tr>
<th>Revaluated assets</th>
<th>Change in fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recording in balance sheet</td>
</tr>
<tr>
<td>Hedging derivatives, for which the method of hedging the fair value is applied</td>
<td>X</td>
</tr>
<tr>
<td>Hedging derivatives, for which the method of hedging net investment associated with foreign currency holdings with decisive or significant influence is used</td>
<td>Yes</td>
</tr>
<tr>
<td>Accounting entities that are investment fund or mutual fund managed by investment company</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: own processing on the basis of legal norms

V: Accounting recording of fair value and its changes in accounting of insurance companies (Regulation of Ministry of Finance No. 502/2002 Coll.)

<table>
<thead>
<tr>
<th>Revaluated assets</th>
<th>Change in fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recording in balance sheet</td>
</tr>
<tr>
<td>Financial position</td>
<td>X</td>
</tr>
<tr>
<td>Technical reserves</td>
<td>It is shown in the balance sheet and profit and loss statement based on the methodology for the creation or use of reserves.</td>
</tr>
</tbody>
</table>

Source: own processing on the basis of legal norms
SUMMARY

This paper expands the discussion on the application of fair value as one of the bases of valuation of assets and liabilities in the accounting. It deals primarily with the practical application of the fair value in the Czech accounting at the present days in connection with applicable legal regulation. The theoretical base is the definition of the concept of fair value and its practical application in the context of international accounting standards that defined this concept for the first time. Fair value has been introduced in the Czech accounting by an amendment to the Accounting Act in 2001.

The aim of the paper is to define the advantages and disadvantages of the valuation of assets and liabilities at fair value, to examine the content definition of the fair value in current practice and to determine impacts of revaluation of assets at fair value on the balance sheet and income from operations. The aim of this paper is to answer the question whether the fair value in the Czech accounting currently reflects the reality based on the definition of its content in accordance with applicable law. Partial aim is to identify specific cases of its application in accounting of various types of business entities in the Czech Republic in current practice.

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