

# Fair value in financial accounting

## *Reálné ceny ve finančním účetnictví*

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**Abstract:** By progression of the expanding use of the International Accounting Standards, fair value is being pushed ahead instead of standard historical costs. The extension of the International Accounting Standards for financial instruments and long-term assets leads to the publishing of real net income of the enterprise. The necessity to express the fair values of assets for accountancy places specialists of this profession in a new position of professionals having a common language with investors. This trend started deepening when the International Valuation Standards Committee began to co-operate with the International Accounting Standards Committee more closely. This caused the harmonization of basic terms used for valuation of property.

**Key words:** accounting, valuation, harmonization, standards, fair value, market value

**Abstrakt:** Postupujícím širším využíváním mezinárodních účetních standardů IAS (International Accounting Standards) se v účetnictví prosazují reálné ceny (fair value), na místo klasických historických cen. Rozšíření IAS na finanční instrumenty a dlouhodobý majetek vede ke zveřejňování reálného výsledku hospodaření podniku. Nutnost vyjádření reálné ceny majetku pro účetnictví staví odborníky této profese do nové pozice profesionálů, kteří mají společný jazyk s investory. Tento trend se začal prohlubovat v okamžiku, kdy s IASC (International Accounting Standards Committee) začal úžeji spolupracovat IVSC (International Valuation Standards Committee). Tím došlo k harmonizaci základních termínů používaných při oceňování majetku.

**Klíčová slova:** účetnictví, oceňování, harmonizace, standardy

## INTRODUCTION

The present times are typical for the transformation from the isolated regional or national markets of goods, services or capital to a single giant global market. The world economy has found itself in the stage of globalisation. This process, witnessed worldwide (with several unimportant exceptions), is supported by modern technologies that serve for the simplification and acceleration of data exchange. Globalisation of the world economy is associated with an intensification of international trading, both in absolute and relative values and reflected in a rapid development of international investments. The rate of return on investment can be checked on the basis of their valuation.

In order to enable comparison of the rate of return for various investments, it is necessary to introduce a unified criterion for their valuation, i.e. identical or similar valuation rules and identical accounting methods. During the last decade, international organizations of accountants and valuers have established with the main objective in coordinating unified procedures for the valuation and accounting of assets.

It is evident from what has been said above that in the current process of globalisation, the importance of a

“unified”, harmonized and mutually comparable price of assets is the Alpha and Omega of the economic description of such assets. This paper focuses on the methodological approach to the definitions of truly comparable prices in financial statements.

## OBJECTIVE AND METHODOLOGY

The objective of this paper is to present a thorough insight into the valid standards of IAS – International Accounting Standards and IVS – International Valuation Standards, and point out the necessity of an interconnection and mutual communication between the professions of valuating and accounting.

In addition, international and European valuation and accounting standards are compared, together with the identification of any differences in comparison with the valid Czech regulations.

This paper has been based on the literature specified in the bibliography, as well as on the authors' own knowledge acquired thanks to the membership of one of the authors in the Presidium of IVSC, Toronto (1994–1996) and the Presidium of TEGoVA, London (1992–1998).

## RESULTS

Thanks to the ever increasing speed of data transmission and the establishment of what is known as the information society, quite understandable tendencies are appearing to harmonize the basic information used and applied by the society. This scope of basic information also comprises economic descriptions of business entities. In order to ensure maximum improvement of the free capital, investors need to have access to data that can be mutually compared in order to be able to make their decisions. Investors evaluate the earning capacity of their investments according to such data. The development of investment activities also depends on the tax burden, particularly the income tax.

### Economic description of assets in financial accounting

Information concerning investments can be compared and evaluated, and decisions are subsequently made according to the available economic details on the assets in question. Potential investors receive information concerning the assets from multiple sources. The basic source, however, is the publicly available information, processed by constituted and generally used accounting methods. In this global world, we can see two new major phenomena pushing through to the methods of accountancy. The first is the broadening of international accounting standards and the other one is based on the search for possible respect for non-economic phenomena in accounting, i.e. respecting ecological factors and their incorporation in the description of an enterprise.

Financial accounting provides a comprehensive collection of details concerning the assets and liabilities, capital, yields and the profit or loss of an enterprise. This information is sought particularly by: persons and companies directly involved in the financing of the activities pursued by the accounting unit in question, banks providing credits, main suppliers, stock exchange markets, specialised financial institutions and other organizations.

Czech financial accounting is a relatively strictly regulated system. This is associated with the efforts to meet the needs of all those who require the information, i.e. a wide group of users. The intensity of financial accounting regulation is different in various countries and has various forms, from recommendations and conventions to binding legal regulations.

Accountancy output data serve the management of enterprises as well as their owners. For this reason, accountancy is required to provide a precise picture of the reality on which it focuses. Provided that financial accounting is to fulfil its primary function, i.e. to process and provide the necessary collection of financial information concerning the current status and development of the economic situation of an enterprise (an accounting unit), it is vital to solve the following basic problems:

1. To define the concept and conditions for the recognition of assets and liabilities in accountancy.
2. To define procedures and structures for the monitoring of assets and liabilities in accountancy.
3. To decide the moment in which changes in assets and liabilities should be reported in company books, and whether to account currently, or only in the form of overall turnover for certain periods.
4. To define the methods for the valuation of assets and liabilities and their changes, both during the current period (in books of accounts) and as of the balance sheet date (in financial statements).
5. To determine which financial statements should be compiled and what principles should be followed with respect to their compilation and reporting.
6. To decide which accounting data should be published.

After we have found a solution to these crucial problems of every accounting system, it is necessary to apply the solution into accounting practice, in the form of suitable and necessary accounting regulations. Even though the issue of valuating assets and liabilities is given under No. 4 in the account of basic problems given above (with respect to the internal logic of succession), it is a cardinal problem beyond any doubt. Within this issue, it is necessary to find a solution to the following:

- Methods of valuation (i.e. valuation base) that can be used in accounting.
- Details concerning price alteration, i.e. differences between the original prices used for asset or liability valuation and current prices (replacement value, net realisable value, present (without interest) value of future cash flows, recoverable amounts, etc.), and also concerning procedures adopted in case of considerable changes in the purchasing power of money.
- Methods of asset and liability valuation and their changes with respect to the request that financial statements make it possible to find out how successful a company is in maintaining the assets (capital) of the company during an accounting period in question.

### Valuation methods in accountancy

Valuation in accountancy is a complicated issue, owing to the fact that there are more than just one method for the valuation of assets and liabilities. These methods can be based not only on the traditional acquisition cost (historical cost), but also on some types of current prices, e.g. replacement or sales value. Acquisition costs can be used in several alternatives (with secondary acquisition costs or without them, known as the cost of acquisition); as regards activated outputs carried out at one's own costs, these are personal expenses, at the real or pre-arranged amount. It is also possible to consider other valuation methods, e.g. nominal costs, present (interest free) value of net cash flows evoked by the item in question in the future and the so-called fair or real values. In addition, it is necessary to distinguish between the valuation methods used in the standard accounting of as-

sets and liabilities and their valuation in the final financial statement, particularly with respect to the application of the principles of conservatism.

The different level of individual categories of price used in accounts for the valuation of assets and liabilities, and the occasionally significant difference between the historical cost and the present value for the same items of assets (a typical example in long-term assets), logically results in a different amount of all basic financial values identified in accountancy and reported in financial statements.

The valuation method has an influence on the following:

- Overall value of assets and liabilities, reported by an enterprise in a balance sheet.
- Amount of personal assets reported in the balance sheet (or net assets, calculated as a difference between total assets and liabilities of an accounting unit).
- Amount of expenses, reported in the income account, which depends on the applied method of asset valuation. For instance, the depreciation of long-term assets may differ considerably, depending on whether the long-term assets are valued according to the historical cost (usually lower), compared to their valuation according to the present (e.g. reproduction) value.
- The amount of the reported profit or loss for the previous accounting period, calculated as a difference between income and expenses during the accounting period in question.
- Amount of the income tax base, owing to the fact that the reported profit is the initial source for the assessment of the income tax base.
- Amount of cash flow reported in the form of a cash flow statement, on the basis of the profit and loss account and the pertinent data in the balance sheet, or detailed data from the account in the general ledger.

The compilation, approval and/or publication of financial statements is not the end of accounting. Financial statements are just an initial document for the assessment of available data in order to be able to verify the fulfilment and, particularly, to enable the various parties involved to accept decisions (company management, owners, creditors, others). Thorough knowledge of valuation methods in accountancy is therefore also necessary for the financial analysis of an enterprise, for which financial statements remain an essential source of information. For instance, the yield (profitability or profit rate) of total investment capital, which can be considered the very basic and critical financial value, characterising how well or badly a company or its management is doing, is, to a great extent, dependent on the asset valuation method used. Its calculation, based on the rating of profit (before deduction of interest from loan capital) to the total amount of the company's assets, will provide significantly different results – during the periods of rapid changes in the prices of assets and a decrease in the purchasing power of currency – provided that the calculation is based on the traditional accounting valuation according to historical cost, compared to the calculation of yield

based on the valuation of assets in present values (e.g. replacement values). The lower accounting valuation of assets and the subsequent lower valuation of the company's expenses (particularly the depreciations of fixed assets), has an effect on the value of both the numerator (overestimated profit) and the denominator (underestimated value of assets).

A similar conclusion also applies with respect to the effects of valuation on the calculation of other indices reported on the basis of financial statements. The consequences of the used valuation method in accountancy need to be considered not only with respect to the analysis of the annual results of a company, based on the annual financial statement, but also with respect to the analysis of economic results reported over a longer period of time (e.g. a five-year period), with the use of a collection of selected reference indices. A reliable identification of trends in the development of a financial situation and financial capacity of an enterprise, together with the detection of possible serious financial troubles in the future, necessarily require that selected indices reported in multi-annual breakdowns (financial summaries) are reported not only at amounts indicated in the financial statements, based on the acquisition price valuation, but also at amounts corresponding to standard prices, also with fixed purchasing power of the currency (without any inflation impact).

A thorough knowledge of the valuation methods in accountancy, including the principles applied for the conversion of data to a fixed purchasing power of currency, is also important for the due audit of the accountancy and the financial statement. One of the important tasks of an audit is to find out whether the amount of reported profit is real profit, distributable in line with the existing regulations and to find out whether there is no fictitious profit distributed, drawn from the assets of the enterprise, to the detriment of its future development. The auditor cannot fulfil this task unless he/she takes into account the extent to which the financial statement (including appendices) is under the influence of alterations in the values of particular assets reported in the balance sheet, and the changes in the purchasing power of the monetary unit over the reported period. This is a rather complicated task, particularly during a period of a relative growth in values and a higher inflation rate.

Correct valuation of assets and liabilities in accountancy (and the correct definition of the content and scope of assets and liabilities) is a particularly crucial factor for the assessment of the extent to which the given accounting system fulfils its basic functions in relation to the needs of the various users of accounting information.

Owing to the essential importance of the valuation of assets and liabilities in accountancy and its influence on the provided information, it is necessary to ensure its relatively strict regulation. The valuation in accountancy (i.e. in financial accountancy) cannot be left to an individual accounting unit, as this would lead to a deliberate and purposeful manipulation of the reported information according to the expectations and strategies

of the management, manipulation with the amount of reported assets and liabilities, expenses and profits, etc. On the other hand, the authorities involved in the regulation of the valuation process cannot adjust every single detail.

Regulation in valuation takes its course not only on the level of national accounting systems applied in individual countries, but also on the level of regional economic structures (e.g. the European Union) and worldwide, as an expression of the further developing globalization process.

### **Accountancy harmonization**

Accounting standards have developed throughout the world with various backgrounds and motivations. It was not until 1970s that the world witnessed an essential change in the overall approach to the issues of financial accounting and reporting. This period could be described as a development phase for the pursuit of what is known as the conceptual framework of financial accounting and reporting. The theoretical benefits of the conceptual framework, developed in the USA, were proven not only in the USA itself, but also throughout the world. This includes the conceptual framework developed in Australia, in the form of the Statements of Accounting Concepts, by the Australian Accounting Research Foundation, 1987, the conceptual framework processed in Canada, in the form of the Conceptual Framework: Postulates for Financial Reporting, 1987, the Corporate Report processed in the United Kingdom by the Accounting Standards Committee, 1975, Making Corporate Reports Valuable processed in Scotland by the Institute of Chartered Accountants of Scotland, 1988, the Objectives and Concepts Underlying Financial Statements, processed by the United Nations Centre on Transnational Corporations, 1989, and The International Accounting Standard Committee (IASC) in the form of the Framework for the Preparation and Presentation of Financial Statements, 1989.

Various countries opt for various methods in the implementation of the conceptual framework in the practice of individual accounting units. This is an extremely complicated issue, particularly as regards the implementation of the objectives of a conceptual framework for international accounting standards, where in it necessary to overcome barriers between countries, concerning their economic and legal systems, and historical, social and other factors. The main factor is the overall approach to the regulation of activities carried out by individual accounting units within a national economy. The approach has historically developed and is now projected in various law concepts in various countries, the main being a legal system based on Anglo-American law, as differing from the Roman codified law.

The first one is traditionally seen in Anglo-Saxon countries, in which the regulation of accounting principles is primarily based on the generally accepted accounting principles or conventions, referred to as GAAP (Generally Accepted Accounting Principles). The USA

is a typical example of one of the countries where this concept is applied.

It is evident from our previous experience that the higher the level of ethic standards and behaviour, the lower the need for detailed regulations for accounting, reporting and publishing accounting data and the lower the scope of necessary interventions by regulatory authorities, including law courts, as regards incorrect or misrepresented data in financial statements. The importance of ethics in the activities carried out by accountants and auditors is higher particularly as a consequence of the fact that there are now emerging new complicated transactions, which are rather difficult to be regulated in details (e.g. financial derivatives, corporate mergers, restructuring, as well as the traditional area of reserves). For this reason, the US GAAP is considered an important tool for the protection of public interest, which is also an important task for external auditors. However, the scandals reported in 2002 with respect to the US auditing corporations proved that these tools are far from ideal and their objectives have failed from a practical standpoint.

The second approach mentioned above with respect to the regulation of financial accounting and reporting is typical for countries with their legal system historically developed from Roman law, characterised by codified legislation. As a general rule, these countries uncompromisingly rely on laws and legal regulations, and have the general ambition to cover virtually all aspects of human existence with relevant legal regulations. The basic concept of Roman law is logically reflected in the regulation of accountancy, i.e. efforts to pursue detailed regulation with the use of laws and related implementing provisions. With a certain exaggeration, we could claim that accounting units include in their accountancy only what is required by the laws (Commercial Code, Accountancy Act, etc.). Whenever there is a request defined by a law or another regulation, it is necessary to fulfil it and follow the related regulation, or even enforce its fulfilment.

The overall level of financial accounting and reporting therefore depends on the quality of the pertinent legal regulations. Only such regulations are considered binding for accounting units. In these countries, which also include the Czech Republic, accountancy is not regulated by accounting standards or – in a wider sense – by generally acknowledged and accepted accounting principles, as regulation is understood in the USA or the United Kingdom. It is also very complicated and problematic to apply the concept of “true and fair view” in these systems.

Typical examples of this group are the countries of continental Europe. We can prove that the system regulating the financial accounting and reporting in the Czech Republic is based on the concept of Roman law described above associated with a detailed codification of the Commercial Code, Accountancy Act and other laws and regulations. In consequence, the system of financial accounting and reporting must be defined both in the laws mentioned above and in the implementing provi-

sions. This concept is based on the correct distribution of the entire accounting system in laws and implementing provisions (i.e. the law should define only the general basis of the system and the related duties, and the subsequent implemented regulations ensure detailed implementation of the law).

The dominating requirement, i.e. that financial statements provide a true and unbiased (fair) view of the reality, is the evidence of a clear difference between the tradition of a customary law, there on one side and the tradition of a codified law on the other side. Among the typical features of customary law are the definitions of concepts like “true and fair view”, typically defined by law courts with respect to specific events rather than by the wording of generally applicable legal regulations. As regards codified law, this is the other way round; the objective of law courts is to ensure a correct interpretation of legal regulations, that is not to render legal definitions applicable for a particular event.

In practice, the conflict between the two traditions is revealed along the process of harmonizing accounting systems within the European Union. On the basis of the 4<sup>th</sup> Directive of the Council of the European Union, also including the concept of a “true and fair” reference to the reality, the continental accounting practice submitted, to a certain extent, to the Anglo-Saxon, British model of accountancy. This resulted in some harmonization of both traditions, even though it is far from ideal. It has now revealed that the harmonization of accounting systems, even on the regional level, is primarily a harmonization of traditions pursued by different legal, economic, tax, social and other systems. For this reason, the required “true and fair” view in financial statements and its definition in the 4<sup>th</sup> Directive is a rather controversial and complicated issue.

As regards the fundamental importance of the concept of the “true and unbiased (fair)” view, which is a dominant requirement expressed by international accounting standards, it is necessary to realize that, even after the acceptance and incorporation of this requirement in the final wording of the 4<sup>th</sup> Directive, the opinions concerning this concept are far from harmonized. There are basically two groups – one, prevailing in some countries of continental Europe, believes that financial statements provide a true and fair view of the financial position of a company and its financial activities only provided that the books are kept and reports made out in line with all the provisions of laws, specified in details in the form of pertinent regulations (chart of accounts, accounting procedures, correlation).

This is not a summation of the adherence to accounting principles but – with respect to all circumstances related to the accounting transactions – of their completeness, integrity, mutual interconnection and entirety, in line with the generally acknowledged and accepted accounting principles. Those who support this concept believe that this is the only way to come to the conclusion that financial statements represent a “true and unbiased (fair) view of reality”.

In 1957, the agreement concerning the establishment of the European Economic Community included a requirement for the harmonization of legal, economic and social conditions of the member states. In the EU, these issues are tackled on the basis of the EU Directives. Three of these Directives are related to financial accounting: the 4<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> Directives.

The 4<sup>th</sup> Directive was adopted on 25 July 1978 by the Council of European Communities. It deals with annual financial statements reported by corporations. The 7<sup>th</sup> Directive was adopted on 13 June 1983 and deals with consolidated financial statements, while the 8<sup>th</sup> Directive, dated 10 April 1984, deals with the requirements of those who may carry out audits of accounting documents (auditors).

Even though the EU member countries have implemented the provisions of the EU Directives in their own legal systems, their national accounting systems still differ. This is also because the Directives define several alternatives for the solution to particular problems. For instance, there are two possibilities for the arrangement of balance sheet items in the 4<sup>th</sup> Directive. Member states can choose the more “convenient” solution with respect to the particular circumstances. As regards profit and loss accounts, there are four acceptable alternatives. The 4<sup>th</sup> Directive deals with a very limited group of accounting questions. The text does not comprise a specific definition of assets, liabilities, personal capital, expenses and income. It only specifies brief requirements concerning the reporting of certain items in financial statements. It can therefore be beneficial rather than the formal processing of financial statements.

The task of carrying out the global harmonization of accountancy has been taken over by the IASC (International Accounting Standards Committee), founded in 1973 in London. In 2001, this Committee was replaced by the IASB (International Accounting Standards Board). The objective of the IASB is to:

- Formulate and announce accounting standards to be followed with respect to financial reporting and promote their acceptance and adherence worldwide.
- Support the harmonization of legal regulations, accounting standards and procedures, related to the reporting of financial accounting.

The Directives on European Corporate Law, adopted in the late 1970s and early 1980s provided harmonized bases for the preparation of accounting documents of the EU corporations. They provided successful modification to the fundamentals of accounting standards, i.e. improved comparability of accountancy, thus establishing conditions for international trade and mutual acknowledgement of accounting documents for the purposes of stock exchange listing and trading in the EU. Increased transparency, arising from the harmonization of financial data by companies, together with an increased reliability of such information (i.e. results of audits carried out by independent and qualified experts), were considered an important achievement on the way towards a Single European Market.

On the other hand, these Directives do not provide answers to all the problems encountered by those who prepare and use accounting documents, and those who were preparing international accounting standards in the 1990s. One of the important problems is the considerable inconsistency in professional accounting terminology. Consistent terminology and definitions of individual accounting terms is a problem in both international and Czech accounting practice.

A total of 41 IAS standards have been processed so far. Their number has been further changed as some standards have been cancelled and replaced with others. As an introduction, the standards comprise a common conceptual framework, defining the elaboration and presentation of financial statements. These standards also include alternative solutions for particular problems, accepted by the IASB. The basic accounting definitions, i.e. assets, liabilities, etc., are defined relatively broadly in the IAS, similar to the US GAAP. The fundamental difference between these two harmonization recommendations is in the different approach to reporting income. The US GAAP is much stricter than the IAS in this respect. These differences are not obvious from the basic definitions, but they become clear in the solution of particular accounting issues.

Even though the Czech Republic saw some discussions towards the end of the millennium concerning possible trends in the harmonization of accounting systems, it is now beyond any doubt that the IAS standards would have priority. In June 2000, the European Commission published a statement concerning its strategy in financial accounting. According to this statement, the IAS is considered the most suitable basis for the presentation of financial statements by companies listed in the capital markets of the EU countries.

The draft requirement concerning the issue of consolidated accounting statements according to harmonized financial standards from 2005, first expressed during the Lisbon EU Summit in March 2000, was further amended, claiming the IAS to be these harmonized standards. Individual EU members should also be able to extend this requirement on unlisted corporations. The proposed changes should initiate the necessary growth in the EU capital market and ensure that comparable financial data are available both for companies and for investors. Small and medium sized corporations, including agricultural companies, will clearly witness much fewer economic benefits. Their accountancy will further follow national legal provisions or national accounting standards, which will reflect the influence of tax regulations to a larger extent. International accounting standards will be used by agricultural entities particularly in their applications for subsidies from the EU funds.

## DISCUSSION

The definition of the value for a certain item is clear as far as such an item is sold or purchased. This is usual in

the matter of assets with short service life – current assets. However, complications are encountered if it is required to present a “true and fair” view of a company, i.e. to identify the real value of long-term assets (buildings, halls, land, equipment), which are not usually transferred in the market, even though their price may usually be higher than that of current assets. In developed countries, this is usually done in cooperation with accountants and valuers, i.e. pricing professionals. However, we still encounter the problem of basic definitions used by these experts. The basic price terminology used by international experts’ organizations, e.g. the IVSC (International Valuation Standards Committee) differs from that used by accounting organizations, e.g. the IASB (International Accounting Standards Board).

During the last decade, these international professional organizations have been attempting to reach a mutual consensus concerning the basic definitions used for evaluation. This internationally acknowledged trend has not been fully accepted in the Czech Republic so far. This can be documented with quotes from the valid Accountancy Act of the Czech Republic.

According to the valid Law No. 563/1991 Collection of Laws, Accountancy Act, the valuation of assets and liabilities is carried out according to several valuation bases, types of prices. These “different” values are associated with the fundamental approach of economists to the definition of value – either as a value in exchange or in use. This has considerable effects on the evaluation and evidence ability of financial accounting data. There is an obvious relation not only with the evaluation basis, but also with the historical development of the country and the differing concept of law.

According to the provisions of Paragraph 1, Section 27 of the Accountancy Act, real value, as at the end of a balance sheet day, is used for the valuation of:

- a) Securities, except for securities held before maturity, securities representing an investment in subsidiaries and associated companies, and securities issued by an accounting unit.
- b) Derivates.
- c) Financial allocation and technical reserves in accounting units, offering services in insurance or reinsurance, according to special legal regulations.
- d) Assets and liabilities in the case of transformation of companies or cooperatives, except for changes in legal form or otherwise, according to specific legal enactments.
- e) Parts of assets and liabilities secured with derivates.

The following definitions are given for the purposes of the law:

- a) The historical value means a value for which the assets are acquired and expenses directly associated with the acquisition.
- b) The replacement value means a value for which assets are acquired during the period in which they are accounted for.
- c) The cost of production for assets created in the course of personal activities means direct costs of production

or other activities, or also indirect expenses in part, related to production or other activities.

- d) Personal expenses concerning tangible assets, except stock, and intangible assets, except accounts receivable, created in the course of personal activities mean direct expenses of production or other activities and indirect expenses, for production or other activities.

For the purposes of this Act, the real value equals:

- a) Market value.  
b) Valuation by a qualified expert or an expert report, unless any market value is available or if the market value does not correspond to the fair value.  
c) Valuation according to specific legal regulations, unless it is possible to proceed according to Items a) and b).

Pursuant to the provisions of Section 27, Paragraph (3) of the Law, the market value is the value “declared at a Czech or foreign stock exchange or other public market”.

According to the Law, in case of assets valuation according to the provisions of Section 27, Paragraph 1), Item d), it is possible to consider the fair value to equal the value specified in an expert’s report, see Section 27, Paragraph 2), Item b) of the Law. There are no further details concerning expert’s reports, and the expert may stipulate a regulated, administrative or non-regulated market price. The law will not be violated; however, the prices thus identified may differ considerably. This discrepancy is caused by the fact that the Czech Republic does not respect the internationally acknowledged and implemented terminology of the market value. The internationally acknowledged term of “market value” is interpreted according to the recommendations of IVSC, TEGoVA etc., i.e. with respect to this “long-term validity” (a period of 3 months is usually accepted).

From this global point of view, it seems to be more appropriate to use the term “market price” instead of market value (Section 27, Paragraph (3)). The valid Valuation Act defines the term of normal price, which is almost identical to the international definition of market value. On the other hand, the term “market rate” has been used in the Czech territory in the past. Its definition is identical to that of the international market value.

The fair value is defined indirectly in Section 27 of Law No. 563/1991 Coll., concerning accountancy, as amended. As regards the direct definition, we could find inspiration in the English wording of the International Accounting Standards: “an amount for which it is possible to exchange assets or settle liabilities between well informed parties willing to carry out such a transaction,

while such a transaction is carried out under conditions normal in the market in question”. This is almost an identical definition to the international definition of market value by the IVSC. Based on the current intensive negotiations between the IVSC and the IASB, we can expect that these two organizations will reach a consensus concerning this definition. We may further expect that valuations carried out by valuers would also be more transparent for accountants.

## CONCLUSION

The harmonization of accounting systems is primarily a harmonization of traditions, different legal, economic, tax, social and other systems. The objective is to ensure the standardization of financial accounting and to make sure that financial statements can be considered identical in form by all users. In order to fulfil this objective, the International Accounting Standards seem to be the most suitable standards for the Czech reality. Along with the development of the requirements for “fair view” of accounting statements, it is necessary to ensure interconnection and mutual communication between accountants and valuers. It is also evident from this cooperation why it is necessary to pursue and implement harmonization in the valuation of assets and work with unambiguously defined basic terms. This particularly concerns further cooperation in:

- Unified international standards for the valuation of assets.
- Unified valuation of Czech and foreign assets.
- Links to capital markets.
- Links to accounting laws and recommendations.
- Financial reporting in the public sector.

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