Conceptual Framework – part 2

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Valuation of assets and liabilities

- Valuation of assets and liabilities = the basic accounting issues

- Influence financial elemenets – through assets and liabilities valuation is influenced profit or loss of a given company and the elements of financial analysis, ...

Valuation bases

- Historical costs

- Current costs

- Realisable value

- Present value

In standards:

  Market value

  Fair value

Historical cost. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Current cost. Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

Realisable value. Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

Present value. The current worth of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows.

- **Market value =** the value that can be obtained on active market;

- **Fair value =** a rational and unbiased estimate of the potential market price of a good, service, or asset. It takes into account such objective factors as:

  - acquisition/production/distribution costs, replacement costs, or costs of close substitutes

  - actual utility at a given level of development of social productive capability

  - supply vs. demand

Valuation according to IV. Directive

- Valuation is based on historical costs

- Member state can choose different methods:

a) Reproduction costs – short-term assets,

b) Other valuation bases that consider influence of inflation present value, fair value

c) Estimation value

Valuation according to US GAAP

- Historical costs

- Reproductin costs

- Realizable costs

- Present value

- Market value

- Fair value

Valuation according to IFRS for SME

- Valuation bases from IAS/IFRS full version
- Some bases are more used than other;

- IFRS for SME establish two basic valuation bases:

a) Historical costs:

- Original purchase costs

b) Fair value

- **fair value** is a rational and unbiased estimate of the potential market price of a good, service, or asset

Základní principy oceňování dle IFRS for SME

- Odvozeny od principů KR IAS/IFRS
- Pokud v IFRS for SME neexistuje pravidlo pro příslušnou položku nebo transakci, použije vedení podniku vlastní pravidlo, které je v souladu se základní filozofií IFRS for SME.
- Základní princip: AKRUÁLNÍ PRINCIP – položky jsou rozpoznány v okamžiku, kdy splňují požadavky IFRS for SME.

Fair value according to IFRS for SME

In case there is no active market:

a) Price of last transaction,

b) Price of similar asset,

c) Present value of future cash-flow

Subsequent measurement according to IFRS for SME

- Financial asset and financial liabilities – amortised historical cost after deduction impairment

- In defined cases fair value can be used – changes in fair value are recognised in income statement

- Non-financial asset - historical cost or fair value

Requirements for fair value

- Investments to associates and joint companies

- Investment to properties

- Biologic asset and agriculture production

Non-financial liability according to IFRS for SME

The best estimate of future cash flow for their settlement on balance sheet date.

Conception and accounting policy according to IFRS for SME

- Aim of financial reporting IFRS for SME = providing information about:

  - financial position,

  - financial performance,

  - cash-flow of entity;

- Information for economic decision of group external users

Qualitative characteristics - IFRS for SME

- Understandability
- Relevant
- Materiality
- Reliability
- Substance over form
- Caution
- Comparability
- Timeliness
- **Balance between benefits and Costs**

THANK YOU FOR YOUR ATTENTION