

DO LISTED COMPANIES IN PSE MEET IFRS DISCLOSURE REQUIREMENTS?

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Abstract

Strong international integration and globalization affects the contemporary world's economy which has influence in development of movement of capital, financial markets and decision making of each business entity. Because of increased force to comparability between companies, the idea of one single-setting globally accepted financial reporting standards was started in 1973 in London by International Accounting Standards Committee (IASC) as a standards setter of International Accounting Standards (IAS). In the year 2000 the International Organization of Securities Commission (IOSCO) recommended to use IFRS for all their members. The paper states about Prague Stock Exchange (PSE) as a member of IOSCO, its index PX and companies which create the index PX. The index base is composed of 14 companies which reported their financial statements in accordance with International Financial Reporting Standards (IFRS, earlier IAS). The aim of the paper is to briefly introduce Prague Stock Exchange and index PX and to evaluate the chosen disclosure requirements of companies which create the index. The disclosure requirements, which are assessed are chosen from IAS 1: Presentation of Financial Statements and IFRS 8: Segments reporting. Research of disclosure requirements has been done by gathering the financial statements from years: 2011 and 2012 and assessment of chosen question is based on disclosure requirements of IAS 1 and IFRS 8. Those standards were chosen because of the wide range of companies. The next part of research is to assess the development between the compared years.

Keywords: International Financial Reporting Standards, International Reporting Standards Board, Prague Stock Exchange, Czech listed companies, Index PX, Disclosure requirements.

1 Introduction

Globalization and multinational integration has strong influence to contemporary European and world's economy which effects the development of security of markets, movement of capital and large number of business entities. The entities progressively trade more within an international environment with consequences of increasing importance of foreign investment. The international trade became common and this need called for increase of comparability among companies thus also for simplification of access to capital. To ensure these requirements the International Financial Reporting Standards (IFRS) were recommended to use by International Organization of Securities Commission (IOSCO) for all their members in the year 2000.

As the Prague Stock Exchange (PSE) is a member of IOSCO all the listed companies registered in PSE have to present their financial statements in compliance with IFRS issued by International Accounting Standards Board (IASB). The spectrum of entities inside the Czech Republic has easily two options (differentiation states in Accounting Act no. 563/1991) of presentation of their financial statements: IFRS or Czech Accounting Standards. The differences between those approaches are so huge that companies which had to come to IFRS can have problem with their proper application. Due to this fact we decided to make a research if the listed companies fulfil the requirements for disclosures selected by IFRS. We had chosen the companies which create the PX index in Prague Stock Exchange.

The paper states about Prague Stock Exchange (PSE) and PX index very briefly in the beginning. After introduction the institution is the main part of research which starts with a list of appropriate companies. After that questions related to disclosure requirements of IAS 1: Presentation of Financial Statements and IFRS 8: Segments reporting are asked. The next part brings the results of research and conclusion summarizes all the paper with results emphasized in the end of the paper.

2 Achievement and methodology

The aim of the paper is to evaluate fulfilment of chosen disclosure requirements of companies which create the base of index PX in Prague Stock Exchange and briefly introduce the Prague Stock Exchange and index PX in the year 2011 and 2012. The chosen requirements arising from IAS 1: Presentation of Financial Statements and IFRS 8: Segments reporting. The IAS 1 and IFRS 8 disclosure requirements were chosen because of comparability when these requirements has to be disclosed regardless of entities' core business and the core business of companies which create the base of index PX in Prague Stock Exchange is naturally various.

Research has been done by gathering and lately examination of the relevant financial statements in two years: 2011 and 2012. The base composition of index PX in PSE is created by 14 companies which were chosen for our research. The evaluation was made on questionnaire base, when the questions regarding the relevant IFRS were asked and the answers were searched in the financial statements. The research focuses on chosen disclosure requirements of IAS 1: Presentation of Financial Statements and IFRS 8: Segments reporting. The next step of our research is to evaluate development between the compared years and to analyze if there is a relation between fulfilment of requirements and name of auditor.

3 Results

3.1 Prague Stock Exchange and Index PX Introduction

In the year 1871 the Prague commodities and Stock Exchange was established as a first stock exchange in the territory of current Czech Republic. During the World War II and Communist regime the stock exchange was being closed for fifty-years. After the break the Prague Stock Exchange

(abbreviation PSE) was opened as a follower of Prague commodities and Stock Exchange in the year 1993. PSE is the oldest and largest contemporary organizer of the securities market in the Czech Republic.

PSE is a member in the CEE Stock Exchange Group (CEESEG), Federation of European Securities Exchange (FESE), and the US Securities and Exchange Commission (US SEC). PSE with three other European stock exchange: Vienna Stock Exchange (Wiener Börse), Budapest Stock Exchange (Budapest Értéktőzsde) and Ljubljana Stock Exchange (Ljubljanska borza) has entered into international market as a strong player and has created the largest group of exchanges in the Central and Eastern European these days. PSE is included on the list of exchanges safe for investors with the status of 'Designated Offshore Securities Market' (official website PSE).

The Prague Stock Exchange has currently two official indices: Index PX and Index PX-GLOB. The paper takes into consideration only Index PX which is a price index. The first index PX calculation was on 20 March 2006 when index PX 50 and index PX-D were replaced. The calculation of PX 50 was in compliance with the International Finance Corporation (abbreviation IFC) methodology which was recommended for creation of indices in emerging markets. The PX index came out the historical similar as the PSE's oldest index and fluently continued to PX 50 development. The initial day of calculation of index was 5 April 1994 when a base composed of 50 issues was created. The Opening value of the index was fixed at 1,000.0 points (PSE, PX index rules, 2013). Figures and Tables should be numbered as follows: Fig.1, Fig.2, ... etc Table 1, Table 2,etc.

3.1.1 Index PX Calculation

According to PX index rules (PSE, 2013) the Index is calculated in real time during the trading hours of the PSE. The opening value of index is established after launching the trading at the basis of the first price change of an index constituent on the PSE. The closing index value is established at the basis of the last price change of an index stock on the PSE. As a result from the new stock prices of index constituents, changes in PX differ during the calculation period. New value of index is calculated with each change of an index constituent. (paragraph 3.1. a 3.2.)

The formula of index PX is as followed (PSE, PX index rules, 2013):

$$PX(t) = \text{Base Value} \times \frac{\sum_{i=1}^{N(t)} q_i \cdot p_i(t) \times FF_i \times RF_i}{\text{Start cap.}} \times AF(t)$$

Where:

- Start cap. = CZK 379,786,853,620.0 is the market capitalization of the index on the launch date (5 April 1994)
- Base Value = 1000
- AF(t) is the adjustment factor at time t (takes into account changes made in the index composition), where K(0) on 5 April 1994 means K(0) = 1.00000000
- q_i denotes the number of securities of the i-th index issue used for the calculation of the index at time t;
- $p_i(t)$ denotes the price quotation of the i-th index issue at time t;
- FF_i denotes the free float factor
- RF_i denotes the representation factor N(t) denotes the number of index issues at time t.

The regular meetings of Index Committee take place every first trading day after last exchange day in February, May, August and November. The updated index composition enters into force on the first exchange day after third Friday in March, June, September and December. The calculation factors (FF factor, RF factor and number of shares) are quarterly updated at the beginning of each relevant month

(March, June, September and December) by the Index Committee. The quarterly updating review is conducted to maintain quality and stability of index PX.

3.2 Companies which create Index PX

As we mentioned in the introduction of the paper, we have chosen the companies which entered Index PX calculation. The base composition represents following companies:

- Erste Group Bank AG
- ČEZ, a.s.
- VIENNA INSURANCE GROUP (VIG)
- Komerční banka, a.s.
- Telefónica Czech Republic, a.s.
- UNIPETROL, a.s.
- Phillip Morris ČR a.s.
- New World Resources Plc (NWR)
- PEGAS NONWOVENS SA
- Orco Property Group S.A.
- Tatry mountain resort, a.s.
- CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
- Fortuna Entertainment Group N.V.
- AAA Auto Group N.V.

The research has been done for the year 2011 and 2012 when we assess the development in disclosure of chosen requirements from IAS 1: Presentation of financial statements and IFRS 8: Segments reporting. We evaluated by using more methods. Firstly we asked YES/NO questions and secondly we use percentage of fulfil requirements which was finally transferred into auxiliary grade. The assessment of particular disclosure requirements (second method) shows the table 1. We also assess some other elements e.g. the presentation currency, name of auditor our research.

Table 1. Assessment scale

Grade	Percentage	Explanation
1	100 %	All requirements are met
2	75 - 99 %	Most requirements are met
3	50 – 74 %	More than half requirements are met
4	25 – 49 %	More than half requirements are not met
5	0 – 24 %	Most requirements are not met

Source: own

We have compiled the list of questions which represents the chosen disclosure requirements assessed in our research. The creation of our questionnaire reflects disclosure requirements comprised in paragraphs of the IAS 1 and the IFRS 8. Regarding the IAS 1 we have chosen series “yes/no” questions which reflect on fulfilment quality of disclosure requirements and series of “optional” questions which reflect optional disclosure requirements. The following yes/no questions regarding the IAS 1 disclosure requirements were chosen:

1. Do financial statements contain complete set of financial statements? (paragraph 10)
2. Does an entity clearly identify each financial statement and the notes? (paragraph 51, 52)

- a. the name of the reporting entity,
 - b. whether the financial statements are of an individual entity or a group of entities,
 - c. the date of the end of the reporting period,
 - d. the presentation currency,
 - e. units of measurement.
3. Is profit and loss for period attributable to non-controlling interests and owners of the parent reported? (paragraph 81B)
 4. Is comprehensive income for the period attributable to non-controlling interests and owners of the parent? (paragraph 81B)
 5. Does entity disclose comparable information?
 6. Do financial statements comprise cross-references with Notes?
 7. Does an entity present any items of income or expense as extraordinary items? (paragraph 87)
 8. Do financial statements report earnings per share - basic and diluted?

The table 2 summarizes the answer of above mentioned questions for all of the 14 chosen entities. Financial statements of all of the 14 entities contain complete set of financial statements. In case of two entities these did not clearly identify each financial statement and the notes. Also two entities did not report profit and loss for period and comprehensive income for period attributable to non-controlling interests and owners of the parent namely in both of the assessed periods (2011 and 2012). All entities reported comparable information in their financial statements and earnings per share. No one of entities presented any items of income or expense as extraordinary. The meeting requirements for the series of questions related to IAS 1 were overall successful, in case of 5 question were disclosure requirements fulfil totally and in case of 3 question for 86 %.

Table 2. Y/N Questions IAS 1

Question No.	Answer in units				Answer in %	
	2011		2012		2011	2012
	Yes	No	Yes	No	Yes	Yes
1	14	0	14	0	100%	100%
2	12	2	12	2	86%	86%
3	12	2	12	2	86%	86%
4	12	2	12	2	86%	86%
5	14	0	14	0	100%	100%
6	14	0	14	0	100%	100%
7	0	14	0	14	0%	0%
8	14	0	14	0	100%	100%

Source: own

Question series regarding the optional disclosure requirements was chosen to show the disclosure preferences of the entities in specific cases. The following questions reflecting optional disclosure requirements under the IAS 1 were chosen:

1. Are assets and liabilities classified as current and non-current or by liquidity?
2. Is statement of comprehensive income presented as one statement or two statements?
3. Are expenses classified by nature or function?

The table 3 summarize the answers of above mentioned questions and shows that the entities unsurprisingly classify assets and liabilities mostly as current and non-current and only for three of them the presentation based on liquidity provides more reliable and more relevant information. The

way of comprehensive income presentation is chosen more or less equally by the entities. In 2011 eight entities presented comprehensive income as one statement when in 2012 one entity change the presentation from one statement to two statements. This change of presentation cause that in 2012 the half of the entities were presented comprehensive income as one statement and the second half as two statements. The chosen entities mostly (79 %) classified the expenses by nature in both of the assessed periods.

Table 3. Optional Questions IAS 1

Question No.	Answer			
	2011		2012	
1	C & non C	Liquidity	C & non C	Liquidity
	11	3	11	3
	79%	21%	79%	21%
2	One	Two	One	Two
	8	6	7	7
	57%	43%	50%	50%
3	Nature	Function	Nature	Function
	11	3	11	3
	79%	21%	79%	21%

Source: own

In this part of our research we also gathered the information about presentation currency of the entities. Eight companies present the financial statements in Czech crowns (CZK), five companies present the financial statements in Euro (EUR) and only one in U. S. dollar (USD).

Presentation currency	CZK	EUR	USD
Number of companies	8	5	1

The questionnaire assessing meeting disclosure requirements comprised in the IFRS 8 were composed as series “yes/no” questions and series “grade” questions. All these questions reflect on quality information required under IFRS 8. “Grade” questions are evaluated firstly in percentage of meeting requirements and then the percentage is transferred to auxiliary grade (see Table no. 1). The following yes/no questions regarding the IFRS 8 disclosure requirements were chosen:

1. Does entity disclose factors used to identify the entity’s operating segments? (paragraph 22)
2. Does entity disclose types of products and services from which each reportable segment derives its revenues? (paragraph 22)
3. Does entity disclose information about reported segment profit and loss, including specifies revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement? (paragraph 21b)
4. Does entity disclose reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items? (paragraph 21c)

The four chosen questions focus on basic general disclosure requirements of IFRS 8. The table 4 shows that only mostly (more than 70 %) the disclosure requirements are met. Only one entity did not disclose factors used to identify the entity’s operating segments in both of the assessed periods. Three entities did not disclose types of products and services from which each reportable segment derives its revenues for both of the assessed years. For both of the assessed periods the 71 % of entities disclosed information about reported segment profit and loss, including specifies revenues and expenses

included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement and the reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items.

Table 4. Y/N Questions IFRS 8

Question No.	Answer in units				Answer in %	
	2011		2012		2011	2012
	Yes	No	Yes	No	Yes	Yes
1	13	1	13	1	93%	93%
2	11	3	11	3	79%	79%
3	10	4	10	4	71%	71%
4	10	4	10	4	71%	71%

Source: own

Grade questions focus on other disclosure requirements required by IFRS 8. For the assessment the following questions were chosen:

1. Does an entity disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker? (paragraph 23)
 - a. revenues from external customers,
 - b. revenues from transactions with other operating segments of the same entity,
 - c. interest revenue,
 - d. interest expense,
 - e. depreciation and amortisation,
 - f. income tax expense or income.
2. Does an entity disclose following minimum of the measurements of segment profit or loss, segment assets and segment liabilities for each reportable segment? (paragraph 27)
 - a. the basis of accounting for any transaction between reportable segments,
 - b. the nature of any differences between the measurements of the reportable segments' profits or losses and the entity's P or L before income tax expense or income and discontinued operations,
 - c. the nature of any differences between the measurements of the reportable segments' assets and the entity's assets,
 - d. the nature of any differences between the measurements of the reportable segments' liabilities and the entity's liabilities.
3. Does an entity report the revenues from external customers for each product and service, or each group of similar products and services? (paragraph 32)
4. Does an entity report the following geographical information? (paragraph 33)
 - a. revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues,
 - b. non-current assets other than financial instruments,
 - c. deferred tax assets,
 - d. post-employment benefit assets,
 - e. rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets.

The answer of question no. 1 summarizes the table 5. The entities mostly disclose revenues from external customers (12 entities of 14) and revenues from transactions with other operating segments of the same entity 9 entities of 14). Disclosure of interest revenues and expenses is quit poor – only 3 entities of 14. Depreciation and amortisation is disclosed by 10 entities of 14 and only half of the entities disclose income tax expense or income. The disclosure requirement of the question no. 1 is fulfilled for 52 % and which means that more than half requirements were met.

Table 5. Grade Question no. 1 IFRS 8

Question No. 1	Answer in units			
	2011		2012	
	Yes	No	Yes	No
a)	12	2	12	2
b)	9	5	9	5
c)	3	11	3	11
d)	3	11	3	11
e)	10	4	10	4
f)	7	7	7	7
Total	44	40	44	40
Total in %	52%	48%	52%	48%
Grade	3		3	

Source: own

The question no. 2 focus on how much the requirements regarding the disclosure of the nature of differences between the measurements of the reportable segments' profit or loss, segment assets and segment liabilities and the entity's profit or loss, assets and liabilities. And also the basis of accounting for any transaction between reportable segments should be disclosed. The table 6 shows that a) – b) requirements are not fulfilled equally by the entities. All the entities disclose information about the basis of accounting for any transaction between reportable segments, the other requirements are met by less than half of the entities. In case of question no. 6 the requirements are fulfilled for 38 %, so more than half requirements are not met.

Table 6. Grade Question no. 2 IFRS 8

Question No. 2	Answer in units			
	2011		2012	
	Yes	No	Yes	No
a)	7	7	7	7
b)	5	6	5	6
c)	4	10	4	10
d)	4	10	4	10
Total	20	33	20	33
Total in %	38%	62%	38%	62%
Grade	4		4	

Source: own

In case of question no. 3 all the entities reported the revenues from external customers for each product and service, or each group of similar products and services. This requirement was fully met by all entities for both of the assessed periods.

The last question concern to disclosure of geographical information related to reportable segments. The table 7 summarize how these requirements are met. Overall these requirements are

more than half not fulfilled. While the disclosure of revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues and the disclosure of non-current assets other than financial instruments is reasonable, the disclosure of deferred tax assets, post-employment benefit assets and rights arising under insurance contracts is very poor. The requirements of question no. 7 are met only for 30 %.

Table 7. Grade Question no. 4 IFRS 8

Question No. 4	Answer in units			
	2011		2012	
	Yes	No	Yes	No
a)	9	5	9	5
b)	8	6	8	6
c)	2	12	2	12
d)	1	13	1	13
e)	1	13	1	13
Total	21	49	21	49
Total in %	30%	70%	30%	70%
Grade	4		4	

Source: own

In our research we also tried to analyze if there is a relation between fulfilment of requirements and name of the auditor. As the disclosure requirements reflected in questionnaire regarding to IAS 1 were fulfilled overall successfully we choose from this point of view to analyze the disclosure requirements reflected in questionnaire regarding to IFRS 8, where the meeting requirements were not so exact. The table no. 8 summarizes the results of the questions from the perspective of auditor company which has audited the financial statements. All the entities were audited by big four. The five assessed entities were audited by Ernst & Young (E&Y), three entities by Pricewaterhouse Coopers (Pwc), three by KPMG and three by Deloitte. In case of Y/N questions the requirements were met quite equally by E&Y, KPMG and Deloitte, the Pwc was a bit worse. In case of question no. 1 the KPMG was much better (72 % meeting requirements) than the others, the others were equally successful (50 % and under 50 % meeting requirements). Meeting requirements in question no. 2 the KPMG was the best and much better than the others (67 %), E&Y and Deloitte were equally successful (around 35 %) and Pwc was the worst (only 8 % meeting requirements). In case of question no. 4 Deloitte and KPMG were successful for more than 50 %, E&Y and Pwc were much worse (under 20 %). In our research overall evaluation shows that financial statements audited by KPMG fulfilled the disclosure requirements the best (67 %), behind KPMG is Deloitte (55%), then E&Y (44 %) and Pwc (33 %).

Table 8. Meeting disclosure requirements by name of the auditor

	E&Y	Pwc	KPMG	Deloitte
	2011/2012	2011/2012	2011/2012	2011/2012
Y/N questions	80%	67%	83%	83%
Question no. 1	47%	44%	72%	50%
Question no. 2	35%	8%	67%	33%
Question no. 4	16%	13%	47%	53%
Average	44%	33%	67%	55%

Source: own

4 Conclusion

The main intention of the paper was to analyze if the listed companies in PSE meet IFRS disclosure requirements. The disclosure requirements of IAS 1: Presentation of Financial Statements and IFRS 8: Segments reporting were chosen for the assessment. The research focused on 14 companies listed at PSE which do create index PX. The research has been done for the financial statements in 2011 and 2012 when the gathered data did not showed any development in disclosure of chosen requirements. The disclosure requirements were met in the same way for both of the years, except one case regarding the optional requirement, when the entity change the presentation of comprehensive income from one statement in 2011 to two statements in 2012.

Our research shows that chosen disclosure requirements of IAS 1 reflected by our questionnaire, which can be also considered as basic requirements of financial statements' presentation, is not more or less difficult to meet for an entities. The research confirms that these disclosure requirements were successfully met in most of the cases for 100 % and in some of them for more than 86 %. For the meeting disclosure requirements of IFRS 8 the results of the research are not so optimistic. Some of the requirements are disclosed quite well (more than 90 % or more than 70 %), some of them reasonably (around 50 %) and some of them quite poorly (30 %). Probably the entities do not pay as much attention to disclosure requirements comprised in IFRS 8, even their auditors do not. The research also analyzed if there is a relation between fulfilment of requirements and name of the auditor. Please, follow our instructions faithfully, otherwise you have to resubmit your full paper. This will enable us to maintain uniformity in the conference proceedings as well as in the post-conference luxurious books by WSES Press. The better you look, the better we all look. Thank you for your cooperation and contribution. We are looking forward to seeing you at the Conference.

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