



Tax & Accounting News

Notes to financial statements: We'll tell you how to approach them

In this newsletter, we discuss the essential news in Decree No. 500/2002 Coll., for entrepreneurs, concerning notes to financial statements, and share with you several useful tips on how to organize them.

■ Let's start with

- The news in respect of information required to be included in notes to financial statements

Then we will focus on

- Useful tips for the preparation of notes to financial statements.

■ News in respect of information required to be included in notes to financial statements

A new feature is the requirement to present related parties in the notes to financial statements; a very topical issue, as many of you will undoubtedly be currently preparing your notes, and, at the same time, it is an area which is usually highly sensitive for any accounting entity. This topic had already been processed in **Decree No. 500/2002 Coll.**, as amended (the "Decree").

Accounting entities that exceed two of the three criteria for consolidation must disclose information on transactions with related parties, necessary for an understanding of the entity's financial situation.

If such transactions are material and were not entered into on an arm's length basis, the accounting entity should disclose the amount of such transactions.

Accounting entities need not disclose transactions between entities and a member who owns them.

Information may not be aggregated (it must not create any misunderstanding of an entity's financial situation).

On the other hand, the Decree also states that an accounting entity should comment on every significant item of accounting statements in the notes to financial statements.

We are, therefore, in favour of the option that an accounting entity comments on significant relationships with related parties in the notes to financial statements, irrespective of whether or not it meets the consolidation criteria. (This, however, is only our recommendation.)

The consolidation criteria:

- Gross assets exceeding CZK 350 mil
- Annual turnover exceeding CZK 700 mil
- Average number of employees exceeding 250

■ Useful tips for the preparation of notes to financial statements

Notes to financial statements consist of the following main parts; the contents of which are provided for in Section 39 of the Decree and other separate sections:

- The first part provides general information on the company, while the second part contains accounting methods and general accounting principles – a short section describing the basis upon which the financial statements have been prepared; related regulations, currency, etc.
- In the third part, material accounting rules, procedures and methods are described. Here, we recommend describing only those areas an accounting entity actually records – i.e., for example, if it does not have derivatives, there is no point in describing this area here.
- The fourth part of the notes contains additional information regarding the balance sheet and the profit & loss account. In this part, material balances in the balance sheet and the profit & loss account are commented on, whether in the form of tables or text commentaries.

Below is a summary of several useful tips for the preparation of notes to financial statements:

- It is advisable to use the sample, ready-made notes to financial statements. You can find our sample notes on our website [here](#)
- In the summary of significant accounting rules and procedures, it is appropriate to delete those parts which are not relevant for your company (for example if the company does not have derivatives, etc.)
- This section also includes information on changes which took place against the previous accounting period, both in terms of accounting methods and the methods of reporting
- Be informed that in the section of additional information, it is necessary to fill in comparable data; also, for example, in the commentary regarding the changes in equity – if such changes are not dealt with in a separate statement.



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