

Creation of the Interpretations of the National Accounting Board

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Abstract: *The National Accounting Board (NAB) is an independent professional organization which has been created by Chamber of Auditors of the Czech Republic, Chamber of Tax Advisers of Czech republic, Union of Accountants and Faculty of Finance and Accounting of the Prague University of Economics and Business. Apart from commenting on legislative changes in accounting regulations. NAB is also preparing interpretations of Czech accounting legislation for situations which are not regulated by this legislation or when its interpretation is not unified. Interpretations explain topics proposed by accountant or auditors as they experience them in their practice. Interpretations thus express standpoints which were agreed by the professionals of the NAB. Doing so NAB assists in improving professional qualifications in the area of accounting methodology and contributes to maintenance of professional ethics.*

Keywords: *National Accounting Board; Interpretation; Financial statement, Accountants; Auditors.*

JEL codes: M41, M48

1 Introduction

The National Accounting Board was established as an interest association of legal entities (Chamber of Auditors, Chamber of Tax Advisers, Association of Accountants and Faculty of Finance and Accounting of the Prague University of Economics and Business) and is registered in the Federal Public Register on 21 January 1999. Its functions are described in the preamble of its statute, which states: "The National Accounting Board is an independent professional institution for the promotion of professional competence and professional ethics in the development of accounting professions and in the field of accounting and financing methodology" (Statute of NAB, 1999). It goes on to frame the scope of NAB activities:

- mutual cooperation of NAB members and cooperation with the Ministry of Finance, the Government of the Czech Republic (or members of parliament and senators) while preparing accounting legislation and related legislative standards,
- creation, updating, publishing and distribution of national (Czech) accounting standards and methodologies and other activities related to the subject of activity,
- cooperation with European Union institutions, foreign institutions and persons in methodological and educational issues.

Three members at the NAB meetings represent each of these legal entities and each member has one vote in the NAB. In addition to these appointed representatives, any of the member organizations may invite other experts to the meeting to assist the member organizations in their professional work in the NAB. Although the Ministry of Finance of the Czech Republic is not formally a member of the NAB, a representative authorized by the Ministry of Finance may also take part in NAB deliberations and participate in an expert discussion. In many cases, this cooperation and the recommendations of the NAB have contributed to the adjustments to accounting regulations.

The creation of accounting standards and their importance for experts (accountants, auditors, or tax advisors) is a relatively analyzed topic in international research. Ruder et al. (2005) presents a discussion related to the creation of worldwide accounting standards. The article argues, that the existence of worldwide accounting standards can help the investors to be able to compare the financial statements of all companies to make better investment decisions. Other research analyzes the influence of accounting theory on the

creation of individual conceptual frameworks of accounting standards. The paper of Baker (2017) traces the influence of accounting theory on the Conceptual Framework and explores some of the consequences of this influence. Not only the influence of accounting theory, but also the effects of the creation of accounting standards are the subject of international research. Pacter (2014) analyzes topics include the creation of the International Accounting Standards Committee (IASC) prior to its successor IASB, objectives of the IFRS adoption and implications of the IFRS requirements to the jurisdictions. Van Mourik and Walton (2018) analyze the creation and development of the European Financial Reporting Advisory Group (EFRAG), a key part of the EU endorsement mechanism for International Financial Reporting Standards (IFRS), which was probably the first example of a dedicated IFRS endorsement system. They find that while national standard-setters had a limited role in the early stages, and EFRAG had limited resources, over time the pressure to find more resources and to try to achieve a unified voice in the creating of international standards have resulted in national standard-setters playing an ever-greater role. Nor the discussion on the creation of accounting standards for the public sector is left by researchers. Baker and Rennie (2018) analyzes the events leading up to the origination of public sector accounting standards in Canada by the Canadian Institute of Chartered Accountants and their adoption by the Government of Canada. Based on these researches, our article presents the creation and structure of Interpretations of the National Accounting Board.

2 Methodology and Data

Creation of interpretation authority in the Czech accounting regulations has been inspired by similar activities attached to International Accounting Standards (SIC) and subsequently to International Financial Reporting Standards (IFRIC). The preface to the NAB Interpretations states: "The interpretations express the expert opinion of the National Accounting Board, whose members are representatives of major professional organizations and professional academics. By creating Interpretations, the NAB strives for uniform and appropriate application of the Accounting Act and other legal regulations. Individual member organizations of NAB support not only the creation of Interpretations but also their use in practice" (Statute of NAB, 1999).

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Collection of proposals for topics (usually based on the practice of accountants or auditors) to be discussed and assessed by the Interpretation represent important link between NAB and communities of accountants and auditors. The members of the NAB are entitled to present proposals to the acting chairperson. Proposals must include both detailed description of the problem, including the question to be discussed, the possible consequences arising from non-solution of the problem, alternatives to the proposed solution and their respective justification. The proposal is included in the agenda of the next meeting, where it is decided whether the NAB should address the issue. The decision-making of NAB follows the below mentioned criteria:

- the problem is general and it affects a significant part of accounting practice,
- failure to address the issue would materially affect the quality of the financial statements and the information presented in the financial statements, provided that such information benefits to users of the financial statements outweigh the costs of obtaining them,

- there are significantly different views on how to address the problem or the problem has not yet been addressed,
- solution of the problem is in accordance with the purpose, mission and position of the NAB and relevant to Interpretations.

3 Results and Discussion

Each interpretation goes firstly through a working design phase. It is accepted if an absolute majority of all votes of the NAB votes for it. If the NAB does not approve the proposed problem to be solved, it will inform the petitioners of this fact, stating the reasons why it was so decided. After the approval of the proposal, the NAB will entrust one of its members to deal with the text of the Draft Interpretation. This member is entitled to invite other members of the NAB, or other experts and institutions dealing with the area which is the subject of the Interpretation, to co-operate in the creation of the text of the Draft Interpretation. The text of the Draft Interpretation is not public; it serves for internal discussion among the members of NAB.

After the internal commentaries are finished, the prepared interpretation is published as a draft interpretation on the NAB website for the external comment procedure, which can be attended by anyone from the professional public. After evaluating, he received comments and incorporating them into the text of Interpretation the final text of the Interpretation (if an absolute majority of all votes of the NAB votes for it) is published on the NAB website as the final Interpretation of the NAB.

NAB prepares to elaborate Interpretations in the following structure (the interpretations published as at 31. December 2020 are presented in the Appendix 1):

- the registration number and title of the Interpretation,
- preamble,
- the "description of the problem", including the formulation of the question which the Interpretation should answer,
- "problem solving" in the form of answers to the questions formulated in the "Problem Description",
- "justification of the solution" with references to the accounting rules used as arguments in formulating the solution to the problem and on which the solution is based,
- the date of approval of the NBA Interpretation.

Conclusions

The goal of interpretations is to ensure that accounting information presented in financial statements will give a true and fair view of the financial situation of the company so that users of financial statements can make efficient economic decisions about the respective company. The interpretations of NAB are endorsed in a manner similar to interpretations to IFRS standards, which ensures their primarily professional quality. The interpretations of NAB respond to current problem areas of accounting and in most cases try to apply accounting solutions based on IFRS standards to the given situation, of course to the extent permitted by the Czech Accounting Act. The importance of interpretations of NAB is growing, especially in their use by the professional public - accountants, auditors, tax advisors - in a comprehensive accounting solution for their clients. This article deals with the origin and characteristics of individual interpretations of NAB and thus follows up on the articles dealing with the use of these interpretations among the professional public.

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