

NEW INTERPRETATION OF THE NATIONAL ACCOUNTING COUNCIL I-48

During January this year, the National Accounting Council approved a new interpretation I-48, Valuation of Assets and Liabilities in Transactions with a Plant or Part of a Plant.

Interpretations of the National Accounting Council

The interpretations express the professional opinion of the National Accounting Council, whose members are the Chamber of Auditors of the Czech Republic, the Chamber of Tax Advisors of the Czech Republic, the Association of Accountants of the Czech Republic and the University of Economics, represented by the Faculty of Finance and Accounting. The main purpose of the interpretations is to assist accounting entities in finding the correct accounting and reporting treatment for specific transactions for which no accounting treatment exists in Czech accounting regulations or is inconsistently or incorrectly applied in practice.

Interpretation I-48 – Valuation of Assets and Liabilities in Transactions with a Plant or Part of a Plant

The main points of the interpretation are:

- When is it appropriate to value acquired assets and liabilities at fair value and recognise goodwill (the “goodwill method”)?
- When is it appropriate to take the valuation of assets and liabilities from the depositor (seller) (the “valuation difference method”) and recognise the valuation difference on the acquired assets?



- How to determine the amortisation period of goodwill, or valuation difference to the acquired property?
- In which situations does deferred tax arise and how should it be recognised?

Solution:

The preferred solution should always be the goodwill method, whereby the components of the assets are individually revalued less the debts assumed. Goodwill in this case arises from the difference between the valuation of a business plant as a whole and its individually valued assets and liabilities. It should be depreciated over the period over which the acquired assets generate future economic benefits. The maximum depreciation period is set at 120 months according to Section 56(2) of Decree No. 500/2022 Sb., however, in justified cases this period may be exceeded.

An entity should recognise all assets at the acquisition date of a business plant, including those that have been fully depreciated on the part of the seller or depositor, if they are still in use and provide future economic benefits.

If negative goodwill arises, the individual valuation should be reviewed and the entity should ensure that it has indeed made a bargain purchase.

In situations where the cost of obtaining a fair valuation of the individual components of a business plant exceeds the benefit of such information, an entity shall use the valuation difference method, in which case the amortisation period of the valuation difference should reflect the amortisation period of the related fixed assets. If the valuation difference becomes negative, it may indicate



that the assets of the business are overvalued and the entity should consider using the goodwill method.

Both goodwill and the valuation difference should be tested for impairment when there is information indicating a possible overvaluation of fixed assets.

Finally, it should be noted that conversions and contributions do not change the tax bases of assets and liabilities and therefore the related deferred tax must be recognised.

The full text of the Interpretation I-48 can be found at the [National Accounting Council website](#).

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